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ACCOUNT SALES AND  
ACCOUNTS CURRENT**



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# CONSIGNMENTS ACCOUNT SALES AND ACCOUNTS CURRENT

WITH A CHAPTER ON  
JOINT VENTURE ACCOUNTS

BY  
E. J. HAMMOND

A.C.I.S., A.L.A.A., CHARTERED SECRETARY

AUTHOR OF "HOW TO BECOME A COMPANY SECRETARY," ETC



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## PREFACE

**THIS** volume is intended to form a thoroughly practical and comprehensive treatise on consignment transactions, account sales, and accounts current of merchants, in their varied aspects. Joint ventures, which have much in common with consignments, have also received attention.

Although these subjects are invariably dealt with in general works on book-keeping and accounts, no separate treatise dealing adequately with the varied aspects of consignments and allied transactions appears yet to have been published, and it is thought that the present volume will supply a definite and general need.

In order that the book may be of the maximum practical utility to students, teachers of the subject, and business men, some consideration has also been given to modern methods of interest calculations, these calculations being an essential component of accounts current. A concise interest table showing the interest on £1 at 5 per cent per annum for any number of days in the year, is also included.



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# CONSIGNMENTS ACCOUNT SALES AND ACCOUNTS CURRENT

## CHAPTER I

### CONSIGNMENTS—INTRODUCTORY

THE term "consignment" is widely used in connection with the dispatch or forwarding of goods ; the sender being known as the "consignor" and the person to whom the goods are sent or consigned as the "consignee," whilst the goods themselves are described as the "consignment."

From a commercial viewpoint, the dispatch of goods falls mainly into two classes, viz.—

- (1) Those sent to a purchaser in execution of orders.
- (2) Those sent in trust to an agent for sale.

In connection with accounts, the use of the word "consignment" is limited to the last-named class of transactions and thus, when merchandise is sent by one trader to another for sale at the best prices obtainable, the goods are said to be "on consignment."

### **Classes of Consignments.**

Consignments may consist of raw materials, produce, or manufactured articles dispatched by the grower, producer, manufacturer, or merchant, and are usually



shipped to a merchant or factor in another country, where it is considered there are better opportunities for disposal at profitable prices. Although the agent has the possession of the goods, they remain the property of the sender, and it is only when a sale is effected that the ownership of the merchandise is transferred.

These transactions fall naturally into two classes, inward and outward consignments, each of which requires different treatment in accounts. Inward consignments, which comprise goods received for sale, more usually consist of raw materials and produce, whilst outward consignments are mainly manufactured goods dispatched to a foreign agent for sale.

Quite a large percentage of the British import trade consists of consignments handled by merchants as agents for the foreign exporters ; more especially with produce and raw materials as distinct from manufactured articles. Amongst other produce, wheat, wool, raw cotton, tea, coffee, and sugar are largely dealt with in this way, and markets have become permanently established at certain centres for the disposal of particular classes of commodities, either by private negotiation on the public exchange market or by public auction. For example, tea, coffee, and sugar are largely dealt with at the Commercial Sale Rooms in Mincing Lane, London, and also at the Commercial Sale Rooms at Liverpool ; cotton is principally dealt with at Liverpool, and the chief market for wool is at the Wool Exchange in Coleman Street, London. The most important markets for wheat and other cereals are the Baltic Exchange in St. Mary Axe, London, and the Atlantic Exchange at Liverpool, but markets for these articles and other produce also exist at Manchester and elsewhere.

### **The Agent's Position.**

Since the consignee, in his capacity as agent, sells the goods on behalf of the consignor, it follows that (apart from any special agreement between the parties) he does not incur any personal responsibility in connection with the consignment. All the risks attendant upon, and incidental to, the sale of the goods, including (where sales are made on credit) the risk of bad debts arising through the insolvency of the purchaser, will fall upon the sender.

The agent's remuneration for his services is usually by way of a commission, i.e. an agreed percentage on the gross monetary proceeds of the consignment. It is sometimes arranged between the parties (the principal and the agent) that the latter shall bear any losses arising through the insolvency of the purchaser; the agent receiving an extra commission known as "*del credere*." Sometimes the *del credere* is merged into and forms part of the sale commission; in other instances it is shown separately from, and as an additional charge to, the ordinary commission.

### **Import Procedure.**

It will be advantageous, as a preliminary to the study of the accounting records relating to consignments, to outline the procedure for their reception and disposal. In many instances the importing merchant has agencies or correspondents abroad and the consignments are arranged through their medium. Occasionally, the correspondents themselves purchase the consignment from the local grower or producer, and forward the produce to London for disposal on their own account.

Usually, the merchant importer receives a "Letter of Advice" containing instructions regarding the

consignment, stating the "reserve" or minimum price at which the goods may be sold and the manner in which the net realized proceeds are to be remitted to the consignor. The documents received usually comprise *pro forma* invoice, weight notes, bill of lading, marine insurance policy, and, in certain cases, certificate of origin.

On arrival of the steamer, the importing merchant (the consignee) arranges for the appropriate entries to be lodged with the customs authorities and for the consignment to be landed and warehoused. If the consignment consists of dutiable merchandise, it is usually deposited in a bonded warehouse under the supervision of the customs authorities. When dutiable goods are deposited in this manner, the payment of duty may be deferred until the goods are sold and delivery is required for home consumption. Whilst the consignment is lying in the warehouse, the goods should be insured against fire.

### **Sale Procedure.**

According to the nature of the produce, the consignor's instructions, or other prevailing circumstances, the sale may be effected (1) by private negotiation on 'change or elsewhere, or (2) by public auction.

In the latter instance the sale is more usually made by a licensed auctioneer-broker at the customary exchange (e.g. the London Commercial Sale Rooms for tea, sugar, rubber, and similar produce or the Baltic Exchange for wheat, etc.), and sale contracts will be exchanged. A "prompt" day is named in the sale catalogue and contract, and upon that day payment for the goods is made against delivery of the "documents of title," e.g. dock or warehouse warrant, etc.

The importer, as agent for the consignor, is responsible for the warehousing charges, rent, and insurance up to the prompt date.

A few days before the prompt the auctioneer-broker renders his invoice to the buyer, whilst to the merchant he submits his "account sales," i.e. a statement showing the price realized, charges and brokerage, etc. Settlements of these accounts between the buyer and the auctioneer-broker, also between the latter and his principal (the importer), are effected on the "prompt" date.

When the consignment is disposed of by private negotiation "bought" and "sold" contract notes are exchanged between the parties and, in similar manner to public auction sales, a prompt date on which delivery is to be given and settlement effected, is inserted in the contract notes.

Sometimes the importing merchant receives advance information of the consignments coming forward and the importer may sell the produce "to arrive." With contracts of this nature, it is usual for the sale to be effected on the terms "cash against documents on arrival of the steamer." A *pro forma* invoice for an approximate amount is rendered by the importing merchant to the buyer a few days before the probable arrival date of the vessel, whilst the shipping documents (bill of lading, marine insurance policy, etc.) are handed over and settlement is effected, on the day the steamer enters dock. Later, when the consignment has been landed and the exact weights or quantities are ascertained, a final invoice is rendered, any balance due being paid by, or refunded to, the buyer as occasion may require.

Finally, the importing merchant makes up his Account Sales showing the gross proceeds, landing and

other charges, insurance, etc., and commission. The net proceeds are then remitted to the foreign principal (the consignor). Alternatively, where regular and continuous transactions occur between the merchant and the consignor, the net proceeds are credited to the consignor in "current account." In the latter event, periodic settlements or remittances "on account" are made between the parties.

### **The Financing of Consignments.**

It will be obvious that some few months' interval must necessarily elapse from the date of dispatch of a consignment until its proceeds are received. To avoid the financial inconvenience which this waiting period may cause, the consignor frequently draws a bill of exchange upon the consignee at sixty or ninety days' sight in anticipation of the sale proceeds. The bills of lading (usually made out to order and endorsed in blank) and other shipping documents are attached to the bill of exchange, which is sold to or discounted with a bank having a branch in the consignee's town.

Usually, the bank requires the consignor to execute a letter of hypothecation, pledging the consignment as security for the money advanced, and giving the bank power to claim and sell the goods in the event of the bill being dishonoured at maturity. Where documentary bills of exchange are being regularly discounted, a general letter of hypothecation to cover future shipments may be lodged with the bank so as to avoid the necessity of executing a separate document for each consignment.

A specimen letter of hypothecation for a specific shipment is given on the next page.

To THE .....BANK.

We have this day sold to you our bill of exchange for £ ..... sterling drawn on ..... against a shipment of ..... per s.s. .... to ..... as per bills of lading herewith. The bills of lading are lodged as collateral security for the acceptance and payment of the said bill of exchange, and in case of a conditional acceptance, which we authorize to be taken, we assume all liability on account of the said bill of exchange. You are authorized, if you think it necessary, to place the said goods, wares, and merchandise at any time in the hands of your broker for sale at your discretion, to charge all expenses, including insurance, commission for sale, and guarantee, and to apply the proceeds in or towards payment of the bill of exchange for account of whom it may concern, and in case of any deficiency, we hereby agree to pay the amount to you on demand. The above shipment of merchandise is fully insured for £ ..... with ..... as per Marine Insurance Policy attached, and we hereby authorize you to effect additional insurance for such further amounts as you may deem necessary, for cost of which insurance you are to have a lien on the above merchandise; and we hereby agree, in case of loss, that the said insurance shall be held for your benefit for payment of the said bill of exchange.

If the documents hereby hypothecated are surrendered against payment of the said bill of exchange before maturity, the allowance of discount to the acceptor is to be at the rate of one-half of 1 per cent per annum above the then advertised rate for short deposits of the leading Joint Stock Banks in London.

This agreement shall enure to the benefit of the holder of the said bill of exchange from time to time, and may be transferred from time to time to such holder, and may be acted on and enforced by such holder as if made directly with such holder.

(Signature).....

6d.
Stamp.

For the protection of the banker who discounts the bill of exchange, as well as for the protection of the consignee who subsequently accepts and pays it, the bill is usually drawn for an amount equal to, say, three-fourths of the approximate market value of the goods. The difference between this amount and the market value acts as a "safety-margin," so that the

banker and the consignee are covered against loss in the event of depreciation of market values.

The bank sends the bill and shipping documents to its branch in the consignee's town, by whom the bill is presented to the consignee for acceptance. If the consignee's financial standing is sufficiently good, the local bank may deliver the shipping documents in exchange for his "acceptance." In other cases, the consignee can obtain possession of the documents only by "taking up" and paying the amount of the bill; an appropriate allowance for interest being made when the acceptance is taken up before its due date.

In the event of the steamer carrying the goods arriving before the due date of the acceptance, arrangements may be made (if the consignee is not prepared to take up and pay the bill of exchange) for the consignment to be warehoused in the bank's name; all charges, of course, being payable by the consignee. Under such circumstances bankers usually surrender the shipping documents "in trust" so that the goods may be landed, examined, and warehoused; the consignee being required to execute a form of trust receipt. The form of the trust receipt necessarily varies according to the prevailing circumstances, and, moreover, most banks have their own special forms. A "trust letter" in duplicate, accompanied by the shipping documents, is usually sent by the bank to the consignee. This letter may be in the following or some similar form—

"In consideration of your undertaking to deal with the under-mentioned merchandise in the manner hereinafter specified, we transfer to you, as trustees for us, the bills of lading for the said merchandise with Marine Insurance Policy or Certificates of Insurance attached, which we now hold as security for the payment of the relative bill of exchange maturing on ..... for the amount of £....., and we request you to obtain delivery on our account of the said merchandise, and to warehouse the same in our name, you paying the freight and expenses of discharge, landing, and warehousing.

We further authorize and empower you to enter into contracts for the sale of the said merchandise on our behalf, in the ordinary course of business, and we expressly direct you to pay to us, from time to time, the proceeds of all such sales immediately and specifically as received by you, to be applied in payment of the said bill of exchange.

You are to insure the said merchandise against all fire risks on our behalf, to keep it fully covered, to hold the policy in trust on our account, and in case of loss to collect and pay the insurance money to us in the same manner as proceeds of sale."

A schedule is attached, giving particulars of the merchandise and of the documents. The following form of receipt is appended to the duplicate letter, and this must be signed by the consignee—

" We have received your letter, of which the above is a copy, accompanied by the bills of lading, etc., referred to, and hereby undertake to carry out the directions given in the said letter."

	6d	
(Signature).....	Stamp.	.....

After the goods are landed and warehoused, the dock or warehouse warrant, warehouse receipt, or other document of title to the goods is handed to the bank, by whom it is retained pending payment of the bill of exchange. The consignee, however, may obtain delivery piecemeal upon payment of proportionate instalments. This arrangement is particularly useful when the consignment is sold in portions to several different buyers. The consignee is able to obtain a release for the portion sold, and the sale proceeds are used to liquidate the proportionate equivalent of the amount due on the bill of exchange. Rebate interest is allowed on the earlier pre-payments and a final settlement is effected either at the due date of the



acceptance or upon the release of the last portion of the consignment.

This brief summary outlines the ordinary procedure with consignments. There are, however, many technical terms and abbreviations used in connection with consignments, the handling and disposal of various classes of merchandise and produce. The more important of these technical terms, etc., are dealt with in the appendices, whilst the accounting records of both inward and outward consignments form the subject of separate chapters.

## CHAPTER II

### ACCOUNT SALES

AN "Account Sales" is a statement, rendered by an agent to his principal, showing detailed information relating to the sale of goods on consignment. It contains the following particulars—

(1) Description of the consignment and a declaration stating on whose account the goods are sold.

(2) Specification of the goods, quantities, weights, etc.

(3) Prompt or due date for settlement.

(4) The price at which goods are sold.

(5) Gross proceeds.

(6) Charges paid by consignee for freight, customs duty (if any), insurance, landing charges, rent, and other expenses, including selling commission and, where applicable, *del credere* commission.

(7) Net proceeds, for which the consignee must account to the consignor.

(8) Date and signature of the consignee.

The expenses deducted consist of the actual disbursements made by the consignee in connection with the consignment, plus the commission at an agreed rate. The commission is usually charged on a percentage basis on the gross proceeds, before any deduction for discount or charges is made.

As the consignee is in the position of an agent, he incurs no personal liability in connection with the consignment unless he acts with gross negligence and/or commits irregularities. Any loss from bad debts, damage by fire, perils of the sea, etc., must be borne by the principal. The risk of loss or damage by

fire or marine perils is usually covered by, or on behalf of, the principal by means of insurance. With respect to bad debts, however, the consignee is obviously in a better position to judge the financial standing of the persons to whom he sells, and he sometimes undertakes the risk of loss through insolvency of the purchaser in consideration of an extra or increased commission. This additional commission, which is, practically, the equivalent of a bad debts insurance premium, is termed the *del credere* commission.

### **Interest on Disbursements.**

A perusal of the examination papers set by various bodies, both professional and educational, indicates that examiners commonly ignore interest on disbursements when dealing with Account Sales. In business practice, however, it is customary to charge interest on the disbursements from the date of payment to the date on which the Account Sales is made up, and the interest thus charged is shown as a separate item in the Account Sales.

### **Closing Statement.**

Where the consignment is disposed of in several portions at different dates, a separate Account Sales is usually rendered for each portion and, where it is possible to apportion the disbursements between the several lots sold, this is done so that each Account Sales fairly represents the net proceeds of the particular portion of the consignment to which it relates. After the whole consignment is sold, a "closing statement" is prepared, in which the transactions are summarized and an average due date is determined, upon which a final settlement may be equitably effected. Alternatively, interest may be charged or allowed on the

### Brokers' and Merchants' Account Sales.

## BROKERS' ACCOUNT SALES

	Prompt, 25th March, 19--		£	s.	d.	£	s.
A. B.	# 121/160 = 40 chests. cwt.s. qrs. lbs.						
# 121/220	Gross     17    2    25 Tare        1    3    4						
	Net        15    3    21 = 1,785 lbs.	d 11	81	16	3		
	# 161/220 = 60 chests. Gross     26    2    12 Tare        2    2    20						
	Net        23    3    20 = 2,680 lbs.	d 11½	125	12	6		
	Discount, 2¼ % . . . .		207 5	8 3	9 9	202	5
	Charges.						
	Sale Expenses, 100 at 4d.		1	13	4		
	Brokerage 1% on £207 8s. 9d.		2	1	6		
						3	14
						£ 198	10
	E. & O. E. LONDON, 20th March, 19-- (Signed) JAMES SNELL & Co.						

## MERCHANTS' ACCOUNT SALES

No. 101. ACCOUNT SALES of 100 Packages of Pekoe Souchong Tea,  
ex s.s. *Malacca* from Calcutta, sold by Arthur Brown & Co. for  
Tee, Simms & Co., Calcutta.

		£			£		
		s.			s.		
		d.			d.		
<div style="border: 1px solid black; border-radius: 10px; padding: 2px; display: inline-block;">A. B.</div> LONDON # 121/220	Prompt. 25th March, 19---						
	# 121/160 = 40 chests.						
	cwt. qrs. lbs.						
	Gross 17 2 25						
	Tare 1 3 4						
	Net 15 3 21 = 1,785 lbs.	d.					
		11	81	16	3		
	# 161/220 = 60 chests						
	Gross 26 2 12						
	Tare 2 2 20						
	Net 23 3 20 = 2,680 lbs.	11½	125	12	6		
Invoice Weight 4,500 lbs.			207	8	9		
Landed „ 4,465 „ Disc. 2½ %			5	3	9		
Loss 35 lbs., say 1 %.						202	5 -
Charges.							
Freight, 2 tons 5 cwt. at 80/- plus 10 %			9	18	-		
Dock and Warehouse Charges . . .			2	12	-		
Fire Insurance . . . . .				18	6		
Postages and Petties . . . . .				6	6		
Sale Expenses at 4d. per chest . . .			1	13	4		
Brokerage, 1 % on £207 8s. 9d. . .			2	1	6		
Commission, 2½ % on £207 8s. 9d. . .			5	3	9		
						22	13 7
						£179	11 5
E. & O. E.							
LONDON, 28th March, 19---							
(Signed) ARTHUR BROWN & Co.							

## CLOSING STATEMENT

LONDON,

28th April, 19....

MESSRS. TEE, SIMMS & CO.,  
CALCUTTA.*In Account with*

ARTHUR BROWN &amp; CO.

		£	s.	d.	£	s.	d.
19--	<i>Cr.</i>						
Mar. 25	By 100 Chests Tea ex <i>Malacca</i> A/S No. 101				179	11	5
	„ Interest to 28 April = 34 days at 5% p.a.					16	9
April 8	„ 150 Chests Tea ex <i>Malacca</i> A/S No. 106				268	12	6
	„ Interest to 28 April = 20 days at 5% p.a.					14	9
April 25	„ 100 Chests Tea ex <i>Malacca</i> A/S No. 112				181	12	7
	„ Interest to 29 April = 3 days at 5% p.a.					1	6
					631	9	6
	<i>Dr.</i>						
Mar. 6	To Acceptance, due 5th May	500	-	-			
	Less Rebate Interest, 7 days at 5% p.a.		9	7	499	10	5
					£131	19	1
	Remittance herewith—						
	Sight Draft on Eastern Bank, Calcutta,						
	Rs. 1,979, annas 5 at ex Rs. 4d. =	£131	19	1			
	E. & O. E.						
	(Signed) ARTHUR BROWN & CO.						

## CHAPTER III

### INWARD CONSIGNMENTS

THE basic principles for recording in accounts the transactions relating to consignments do not differ from those applicable to any other commercial transaction, but it is necessary to bear in mind the true nature of each transaction and particularly to distinguish between such transactions as—

- (1) A sale of goods ;
- (2) Goods on “ sale or return ” ; and
- (3) Goods sent or received “ on consignment.”

Under a contract of sale, the “ property in the goods,” i.e. the right to absolute ownership, passes to the buyer. Where, however, goods are sent to a prospective buyer on “ sale or return,” the property in the goods remains vested in the vendor until the buyer either (1) formally notifies his approval or acceptance of the goods, or (2) retains the goods without giving notice of rejection beyond an agreed time limit or, if no definite time is fixed, beyond a time which, in the circumstances, is a reasonable time. (*See the Sale of Goods Act, 1893, sec. 18, rule 4.*)

But goods sent out “ on consignment ” always remain the property of the consignor until a sale has been effected. The relationship which exists between consignor and consignee is that of principal and agent ; and the latter must dispose of the goods in accordance with the principal’s instructions. In effect, the dispatch of goods on consignment is merely the transfer of some portion of the trader’s stock-in-trade from one place to another in the hope of effecting a profitable sale.

### **The Consignee's Duties and Powers.**

Primarily, the duties and powers of the consignee-agent are defined by the terms of the agency contract entered into by him with his principal (the consignor). But, under the Factors Act, 1889, a mercantile agent who is (with the consent of the owner) in the possession of goods or of the documents of title to goods, is vested with certain general powers.

These general powers, *inter alia*, include—

(1) The right to sell in his own name, subject to the ordinary rules relating to undisclosed principals.

(2) The right to receive payments and to give valid receipts; and to sell on credit to a reasonable extent.

(3) The right to pledge the goods.

(4) The right to a lien on the goods in his possession for the amount of his commission and disbursements.

The agent has, moreover, an insurable interest in the goods and, therefore, he may insure the goods and recover from the insurance company the amount of any claims for losses incurred.

Third parties are thus enabled to deal with the consignee with safety, and, if the agent violates the terms of his agency contract, the principal's only remedy is against the agent.

### **The Accounting Records.**

There are two methods of recording the transactions of inward consignments, and in order to distinguish them they may be described as the "First" and "Second" methods.

The basic principle of the first method is that, in recognition of the fact that the goods are not his own property, the consignee makes no entry in his financial books until some monetary transaction occurs affecting



the consignment. All entries relating to the consignment are passed through the consignor's personal account, this account being—

- (1) Credited with the sale proceeds ; and
- (2) Debited with the expenses incurred, any advances made, and selling commission.

Assuming that the sale price exceeds the advances made, expenses, and commission, the account will show a credit balance and, upon remitting this balance to the consignor, the account will be debited and closed. When the sale proceeds are less than the advances made, plus expenses, etc., the consignor's account will show a debit balance, which the consignor must remit to the agent.

Under the second method, however, two accounts relating to the consignment are opened, and the entries therein may be summarized as follows—

- (1) On receipt of the advice of the goods, the agent debits a Consignment Inwards Account with the amount of the *pro forma* invoice, and credits the personal account of the consignor.

- (2) Advances made (if any) are debited to the consignor's personal account.

- (3) Sale proceeds are credited to the Consignment Account, the latter account being debited with expenses incurred and selling commission.

- (4) The credit balance of the Consignment Account, representing the surplus of the sale proceeds over the amount of the *pro forma* invoice and expenses, is then transferred to the credit of the consignor's personal account.

- (5) If the Consignment Account shows a debit balance by reason of the sale proceeds being less than the amount of the *pro forma* invoice, the personal account will be debited, and the consignor's personal

account will be closed when a remittance is received from the consignor in settlement.

Both methods are met with in practice and both have their advantages and disadvantages.

The distinct advantage of the first method is that it recognizes the true character of the transaction, viz., that the consignee has no title or property in the goods and, therefore, he is not personally responsible for the goods until a sale is effected. The disadvantage is the risk that, if no entry is made, the consignment may be overlooked, but this defect may be overcome by the use of a subsidiary book (outside the financial books) to record the essential particulars of each consignment. This book, the "Consignment Inwards Book," is described on page 20.

Advocates of the second method suggest that as the consignee is morally—if not legally—responsible for the goods, that responsibility should be recognized by suitable entries in the financial books of account, and they maintain that it prevents any possibility of the consignment being overlooked. The disadvantages of the second method are twofold—

(1) It records a liability to the consignor which does not exist until the goods are sold ; and

(2) There is the risk that the amount credited to the consignor may be paid to him before the goods are sold.

Further, under this method, the surplus of the sale proceeds over the amount of the *pro forma* invoice is commonly termed "gross profit," whilst the balance remaining after deduction of expenses and commission is termed "net profit." It is submitted that the use of these terms is inappropriate and misleading. The amount of the *pro forma* invoice does not necessarily represent the true original cost of the goods, hence

the apparent "gross" and "net" profits may be totally different from the true profits when the true facts are ascertained.

### **The Consignment Inwards Book.**

The object of this book (which is quite a subsidiary book and does not form part of the ordinary financial books) is to record the receipt of each consignment, particulars of all the transactions in connection with the goods, and their ultimate dispatch. An illustration of this book, with specimen entries, is given on page 21.

It will be observed that the book provides separate columns for "invoice quantities or weights" and "landed quantities or weights." With certain classes of produce, e.g. tea, sugar, rice, molasses, etc., discrepancies in weight or quantity often arise, and these discrepancies may be due to inherent natural causes such as decay or evaporation, or to wastage in handling or leakage, etc., according to the nature of the articles and the method of packing used. The average loss from these causes is—where consignments are regular—fairly well known in the respective trades.

After the goods are landed and warehoused, the landing account should be compared with the original invoice to ascertain whether any discrepancy exists. Where a loss is disclosed, and the loss exceeds the usual percentage, inquiries must be instituted to ascertain the cause. For example, in the event of losses arising through short delivery by the ship or damage occurring as a result of marine perils, claims are made against the shipowner or marine insurance underwriters, as the case may require. Such claims are noted in the Consignment Inwards Book, and amounts received in settlement of these claims are credited to the Consignor's Account.

## LEFT-HAND RULING.

## CONSIGNMENT INWARDS BOOK

No.	Date.	Consignor.	Goods.			Where Lying.	Insurance.		
			Description.	Invoice Quantities or Weights.	Landed Quantities or Weights.		Date.	Company.	Period.
161	19.. Jan. 5	Dec, Black & Co., Adelaide	1,000 cases Tinned Fruits in Syrup	500 cases Apricots, ea. 100 x 2 lb. tins 500 cases Pears, ea. 100 x 2 lb. tins	500 cases B. Warehouse R. A. Docks do.		19.. Jan. 6	Sun	3 months
									£850

## RIGHT-HAND RULING.

Date.	Sold to.	Particulars.	Terms.	Prompt Date.	A/c Sales.		Remarks.
					Date.	Fo.	
19.. Feb. 10	J. Snell & Co.	500 cases Apricots, 10d. lb. 500 " Pears, 9d. lb.	1 month prompt, less 2½ %	19.. March 10	19.. March 10	121	

### **The Books of Account Used.**

Where only isolated or occasional consignment transactions occur, all the entries may be passed through the consignee's ordinary books of account. But when regular and continuous consignments are received, it is a much better plan to keep a separate Consignment Ledger, Consignment Expenses Journal, and Account Sales Book to record particulars of the consignment transactions. Cash entries and bill of exchange transactions are, of course, recorded in the Cash Book and Bill Books respectively, in the usual manner.

It is recommended that the first method outlined on pages 17 and 18 be adopted with the following modification, viz., that a separate account be opened for the consignor in respect of each consignment. Where several consignments are received from the same principal, this modification is necessary to ensure that a clear, concise accounting record is kept of each consignment. The ledger account, of course, must be suitably headed, as, for example—

*Arthur Brown. Consignment No..... Account.*

The final balance of each consignment may be specially remitted to the consignor, but where the agent is transacting other general business with his principal, it is a convenient practice to keep a "General or Current Account" for such transactions and, as each consignment is completed, to transfer the balance of the Consignment Account to the General or Current Account.

Alternatively, the General or Current Account may be debited with cash advances, remittances, and bills accepted. In that event, the Consignment Account will record only the gross sale proceeds and the expenses, selling commission, etc., relating to the consignment.

The balance of the Consignment Account (which represents the net proceeds as shown by the Account Sales) is transferred to the credit of the General or Current Account.

The entries in the agent's books may be thus summarized—

#### FIRST METHOD

(A separate personal account is opened for each consignment to record *all* transactions.)

(1) On receipt of the letter of advice and *pro forma* invoice, full particulars are entered in the Consignment Inwards Book.

(2) If the consignor draws a bill of exchange against the consignment, debit the consignor's personal account, crediting Bills Payable Account, also entering a note in the Consignment Inwards Book.

(3) Expenses incurred are debited to the consignor's personal account; either Cash, a creditor's account, or the appropriate nominal account being credited.

(4) Upon sale of the goods, the gross proceeds are credited to the consignor, either Cash or the Purchaser's Account being debited.

(5) Debit the consignor's personal account with selling commission, crediting Commission Account.

(6) Balance the account.

If a credit balance exists, debit the consignor with the final remittance, crediting Cash or Bills Payable Account as the case may require.

(7) If a debit balance exists, the account is closed upon receipt of a remittance from the consignor.

#### ALTERNATIVE METHOD

(Sale proceeds, expenses, etc., recorded in the Consignment Account, cash transactions, etc., in General or Current Account.)

(1a) As in first method.

(2a) Debit the consignor's General or Current Account and credit Bills Payable Account.

(3a) Debit expenses to the Consignment Account; credit entries as in first method.

(4a) Credit gross sale proceeds to the Consignment Account; debiting either Cash or the Purchaser's Account.

(5a) Debit the Consignment Account and credit Commission Account.

(6a) Balance the account and transfer the balance to the General or Current Account.







Account Sales Book as a journal. This method is adopted where the consignments are sold for cash, either by the agent direct or through the medium of a broker.

As soon as the goods are sold, and payment is received, the Account Sales are made up and entered in the Account Sales Book, a copy of the Account Sales being forwarded to the consignor. At the foot of each page of the Account Sales Book a summary—in journal form—is given, and this summary forms the posting medium to the various ledger accounts. A specimen page of this book is given on page 27.

### A Fully-Worked Example.

Arthur Brown & Co. act as London agents for Dee, Black & Co., of Adelaide. One of the latter firm's consignments consists of 100 cases Tinned Fruits (50 cases Apricots in Syrup and 50 cases Pears in Syrup, each case containing  $100 \times 2$  lb. tins nom.). Dee, Black & Co. draw a bill at 60 days' sight for £600 against this consignment. The bill is accepted by Arthur Brown & Co. on 3rd January.

The consignment is sold at auction on 10th February (1 month's prompt, less  $2\frac{1}{2}$  per cent discount), the apricots realizing  $10\frac{1}{2}$ d. per lb. and the pears, 9d. per lb., both prices being duty paid. The charges incurred are as follows—

Landing and Dock Charges . . . . .	£ 6 1 6
Warehouse Rent . . . . .	4 12 -
Duty, 178 cwt. 2 qrs. 8 lb., at 3s. 5d. cwt. . . . .	30 10 2
Fire Insurance, £850, at $1\frac{1}{6}$ % and Policy . . . . .	13 3
Incidental Expenses . . . . .	15 7
Broker's Sale Expenses . . . . .	16 8

Brokerage is 1 per cent and selling commission,  $2\frac{1}{2}$  per cent on the gross proceeds.

Make the necessary entries to record the above transactions in A. Brown & Co.'s books.

# ACCOUNT SALES BOOK.—SPECIMEN PAGE

No. 121. Account Sales of 100 cases Tinned Fruits ex s.s. *Omrah* from Sydney, sold by Arthur Brown & Co. for the account of Dee, Black & Co., Adelaide.

A D. B.  
# 1/100

Prompt : 10th March, 19..  
50 cases Apricots in Syrup,  
each case containing 100 ×  
2 lb. tins nom.  
= 10,000 lb. at per lb. d.p.  
50 cases Pears in Syrup, each  
case containing 100 × 2 lb.  
tins nom.  
= 10,000 lb. at per lb. d.p.

Discount 2½ %.

Charges

Landing and Dock Charges .  
Warehouse Rent .  
Duty 178 cwt. 2 qrs. 8 lb. at  
3s. 5d. cwt.  
Fire Insurance £850 at 1s. 6d.  
per cent and Policy .  
Sale Expenses 16s. 8d. and  
Incidentals 15s. 7d. .  
Brokerage 1 % on £812 10s. .  
Commission 2½ % on £812 10s.

d.  
10½  
  
d.  
9

£	s.	d.	£	s.	d.
437	10	—			
375	—	—			
812	10	—			
20	6	3	792	3	9
6	1	6			
4	12	0			
30	10	2			
	13	3			
	1	12			
8	2	6			
20	6	3	71	17	11
			£720	5	10

SUMMARY— LEDGER ACCOUNTS.	Led. Fo.	Debits.	Credits.
		£ s. d.	£ s. d.
J. Snell & Co. (Brokers)		792 3 9	
do. Brokerage			8 2 6
do. Sale Expenses			16 8
Landing and Dock Charges			6 1 6
Warehouse Rent			4 12 —
Duty			30 10 2
Fire Insurance			13 3
Incidental Expenses			15 7
Commission.			20 6 3
Arthur Brown & Co. (Consignor)			720 5 10
		£792 3 9	£792 3 9

# First Method.

## JOURNAL

		£	s.	d.	£	s.	d.
19..							
Jan. 3	Dee, Black & Co. <i>Dr</i> To Bills Payable <i>being acceptance of bill</i> <i>£600 at 60 d/s against</i> <i>consignment of Fruit ex</i> <i>s.s. "Omrah." Due date :</i> <i>7th March.</i>	600	-	-	600	-	-
Mar. 10	J. Snell & Co. <i>Dr</i> To Dee, Black & Co. <i>being sale proceeds of</i> <i>consignment No. 61 ex</i> <i>"Omrah" 50 cases Apru-</i> <i>cots, each 100 × 2 lb. tins</i> <i>= 10,000 lb @ £ s. d.</i> <i>10½d . . . 437 10 -</i> <i>50 cases Pears,</i> <i>each 100 ×</i> <i>2 lb. tins.</i> <i>= 10,000 lb @</i> <i>9d . . . 375 - -</i>  <i>812 10 -</i> <i>Discount 2½% 20 6 3</i>  <i>£792 3 9</i>	792	3	9	792	3	9
Mar. 10	Dee, Black & Co. <i>Dr.</i> To J. Snell & Co. . <i>£ s. d.</i> <i>Sale Expenses 16 8</i> <i>Brokerage 1%</i> <i>on £812 10 -</i>  <i>8 2 6</i>  <i>£8 19 2</i>	8	19	2	8	19	2
Mar. 10	Dee, Black & Co. <i>Dr.</i> To Commission Account <i>for commission on above</i> <i>sale.</i>	20	6	3	20	6	3



J. SNELL & CO.

Dr.

Cr.

19..	To Dee, Black & Co.— Sale proceeds . . .	J.	£	s.	d.	19..	By Dee, Black & Co.— Brokerage & Expenses Cash . . .	J. C.B.	£	s.	d.
Mar. 10			792	3	9	Mar. 10			8	19	2
						" 10			783	4	7
			£792	3	9				£792	3	9

Nominal or General Ledger.

Dr.

BILLS PAYABLE

Cr.

19..	To Cash . . .	C.B.	£	s.	d.	19..	By Dee, Black & Co. .	J.	£	s.	d.
Mar. 10			600	—	—	Jan. 3			600	—	—

Dr.

COMMISSION ACCOUNT

Cr.

			19..	By Dee, Black & Co. .	J.	£	s.	d.
			Mar. 10			20	6	3

# Alternative Method.

## JOURNAL

19..			£	s.	d.	£	s.	d.
Jan. 3	Dee, Black & Co. Dr. To Bills Payable being acceptance of bill £600 at 60 d/s against consign- ment of Fruit ex s.s. "Omrah." Due date : 7th March.		600	-	-	600	-	-
Mar. 10	J. Snell & Co. Dr. To Consignment No. 61, ex Omrah being sale of proceeds of con- signment ex s.s. "Omrah." 50 cases Apricots, ea. 100 × 2 lb. tins = 10,000 lb. @ 10½d . . £437 10 - 50 cases Pears, ea. 100 × 2 lb. tins = 10,000 lb. @ 9d. . . 375 - - 812 10 - Discount 2½% . . 20 6 3 £792 3 9		792	3	9	792	3	9
Mar. 10	Consignment ex Omrah Dr. To J. Snell & Co. . Sale Expenses . £ 16 8 Brokerage 1% on £812 10s. . 8 2 6 £8 19 2		8	19	2	8	19	2
Mar. 10	Consignment ex Omrah Dr. To Commission A/c . for commission on above sale, 2½% on £812 10s.		20	6	3	20	6	3
Mar. 10	Consignment ex Omrah. Dr. To Dee, Black & Co. . being transfer of net pro- ceeds of above consignment.		720	5	10	720	5	10



# **Personal Ledger.**

J. SNELL & CO.

Dr.

Cr.

19.. Mar. 10	To Consignment A/c	J.	£ 792	s. d. 3 9	19.. Mar. 10	By Consignment A/c— Brokerage & Expenses	J. C.B.	£ 8783	s. d. 19 2 4 7
			£792	3 9	" 10	" Cash		£792	3 9

Dr.

DEE, BLACK & CO

Cr.

19.. Jan. 3 Mar. 10	To Bill Payable " Balance c/d	J.	£ 600 120	s. d. — 5 10	19.. Mar. 10	By Consignment A/c	J.	£ 720	s. d. 5 10
			£720	5 10	Mar. 10	By Balance b/d		£720	5 10
								£120	5 10

# **Nominal or General Ledger.**

Dr.

BILLS PAYABLE

Cr.

19.. Mar. 10	To Cash	C.B.	£ 600	s. d. —	19.. Jan. 3	By Dee, Black & Co.	J.	£ 600	s. d. —
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Dr.

COMMISSION ACCOUNT

Cr.

					19.. Mar. 10	By Consignment A/c	J.	£ 20	s. d. 6 3
--	--	--	--	--	-----------------	--------------------	----	---------	--------------



## CHAPTER IV

### OUTWARD CONSIGNMENTS

AN "Outward Consignment," or, as it is sometimes termed, a "Consignment Outwards," may be defined as the dispatch of goods or merchandise from one place to another for purposes of sale. From the viewpoint of the consignor it is an "outward" consignment, whilst to the consignee it is an inward consignment. In this chapter it is proposed to discuss the outward aspect of the transaction, together with the relative entries in the consignor's books.

#### **The Nature of the Transaction.**

The dispatch of the merchandise on consignment is merely the transfer of so much "stock-in-trade" from one place to another.

At the time of dispatch, a *pro forma* invoice is sent to the consignee giving detailed particulars of the goods, quantity or number, weight, prices, packing, etc. An accompanying letter of advice will state the minimum selling price which the consignor desires to receive for the goods, and the consignee should not sell below this minimum selling price without reference to the consignor. In most cases, however, it is arranged that the goods should be sold at the highest price obtainable and, as the consignee's remuneration is at the rate of an agreed percentage on the sale proceeds, it is to his interest to obtain the best possible selling price.

#### **The Entries in the Consignor's Books.**

Consignment outward transactions being merely a transfer of stock-in-trade from one place to another,

the entries should not be passed through the ordinary Sales Day Book. Where only a few of these transactions occur, they may be entered in the Journal, debiting a Consignment Account and crediting a Goods Sent on Consignment Account. In order that the consignment accounts may be easily distinguished, they must be suitably headed with the name of the consignee, the name of the town to which they are consigned, a separate number or a combination of these methods, as shown in the following examples—

- (1) Consignment to A. Jones.
- (2) Consignment to Cape Town.
- (3) Consignment No. 51 to A. Jones.

### The Consignment Day Book.

Where there are many consignment transactions, separate Consignment Day Books and Consignment Ledgers should be kept to record these transactions. The former book is ruled in a similar manner to the ordinary Sales Day Book, and detailed particulars are entered therein in the same way as for a sale, but, in addition, there will be marks and numbers of the packages and the name of the vessel by which the goods are shipped.

#### CONSIGNMENT DAY BOOK

Date.	Name of Consignee, with Particulars of Goods Consigned.	Ld. Fo.	Extensions of <i>pro forma</i> Invoices.			Invoice Totals.		
			£	s.	d.	£	s.	d.
19. . Jan. 1	James Brown & Co., Cape Town.  J.B. # 1/20 = 20 cases per s.s. <i>Alnwick</i> # 1/10 = 250 doz. pairs Ladies' Gloves @ 63/- 11/20 = 200 doz. pairs Men's Gloves @ 70/-							
			787	10	—			
			700	—	—			
						£1,487	10	—

The total of each invoice is posted to a separate account, appropriately headed, in the Consignment Ledger, whilst the monthly total of the Consignment Day Book is credited to a "Goods on Consignment Account" in the Impersonal or Nominal Ledger.

At the end of each trading period, the balance at the credit of Goods on Consignment Account is transferred to the credit of the Trading Account, whilst any credit balances of the Consignment Accounts, representing realized profits on the goods sold, are transferred to the credit of Profit and Loss Account. If the Consignment Account shows a debit balance representing unsold goods, such balance will appear in the balance sheet as an asset. But if the debit balance represents a loss, it is written off to the debit of profit and loss.

### **The Correct Basis of the Entries.**

Strictly speaking, the correct method of procedure is for the consignor to charge out the consignment in his books at cost price, but, more generally, the *pro forma* invoice prices consist of the minimum selling prices, and these will naturally include a certain margin of profit.

Where the *pro forma* invoice prices form the basis of entries in the consignor's books and, at stock-taking periods, some portion of the consignment is unsold, a reserve must be made for the amount of the unrealized profit and debited to the Goods Sent on Consignment Account, the credit entry appearing in a Consignment Suspense Account. The debit to the former account reduces that account to its true figure, whilst the amount at the credit of Consignment Suspense is shown in the Balance Sheet (on the asset side) as a deduction from the Consignment Account, thus

reducing the asset account to the cost price of the goods unsold.

### **Consignment Expenses Book or Journal.**

The expenses incurred in connection with each consignment, such as freight, insurance, dock dues and other charges incidental to shipment, etc., must be debited to the respective consignment accounts.

There are three methods of dealing with these expenses, viz.—

(1) Debiting each item of expense, as and when paid, from the credit side of the Cash Book to the appropriate consignment account.

(2) Entering the details in the Consignment Day Book as a supplementary item, space being left in the Day Book to enter the charges as a continuation of the invoice entries. In this case, the Consignment Day Book will require to be provided with extra analysis columns for the Goods on Consignment Account and the different expense accounts, the totals being posted monthly to the credit of the respective accounts.

(3) A separate book—the Consignment Expenses Book or Journal—is kept, into which the details of the expenses incurred are entered, and the items are debited from this book to the respective consignment accounts; the monthly totals being credited to the appropriate expense accounts.

For both the second and third methods the expense accounts are debited with the charges from either the Cash Book or the Bought Invoice Book in the usual manner.

### **Advances on Consignments.**

If the consignor desires to obtain a monetary advance against the consignment, he usually draws

a bill of exchange upon the consignee, discounting the bill with his bankers. The amount of the bill is debited to the Bills Receivable Account and credited to the personal account of the consignee. The discounting charges are credited to the bank and debited to the Consignment Account. Alternatively, the discount charges may be debited to the Discount Charges Account ; the latter account being closed at the end of the trading period by transference to the Profit and Loss Account as an ordinary business expense.

### **Account Sales Received Book.**

Assuming that the consignee sells the goods, the consignor receives, in due course, the Account Sales containing detailed particulars of the financial transactions relative to the disposal of the goods. There are two methods of recording the Account Sales in the consignor's books.

**FIRST METHOD.** Under this method the gross proceeds are credited to the Consignment Account and debited to the personal account of the consignee, whilst the expenses and commission charged by the consignee are debited to the Consignment Account and credited to the consignee's personal account. The advantage of this method is that the Consignment Account records summarized particulars of all the relative transactions.

**SECOND METHOD.** The alternative method is to enter through the ledger accounts only the net proceeds, debiting the consignee's personal account and crediting the Consignment Account. By this method, the number of entries is reduced with a consequent saving of time and labour.

Where the consignment transactions are few in number, the entries may conveniently be passed

# ACCOUNT SALES RECEIVED BOOK

Con- sec- utive No.	Date.	Consignee.	Particulars.	Gross Proceeds.	Led. Fo.	Consignee's Charges.		Led. Fo.	Net Proceeds.	Re- marks.
						Particulars.	Amount.			
61	1911 Mar. 28	James Brown & Co., Cape Town.	Gloves ex <i>Almwick</i> —	£	Dr.	Landing Charges	£ 7 12 6	Cr.	£	s. d.
			100 doz. Ladies' Gloves	—		Warehouse Rent	2 5 —			
			@ 73/-	365		Fire Insurance	1 12 6			
			150 doz. Ladies' Gloves	—		Sale Expenses and In- cidentals	2 5 —			
			@ 74/-	555		Commission, 3% on	39 15 —			
			100 doz. Men's Gloves	—		£1,325	—			
			@ 81/-	405		Extra Remuneration—	—			
				—		150 doz. Ladies'	3 15 —			
				—		Gloves, 8d.	—			
				—	P.L. C.L.	100 doz. Men's	2 10 —	C.L. P.L.	£1,265 5 —	
				—		Gloves, 6d.	£59 15 —			
				£ 1,325						

N.B.—(1) In practice, two cash columns are shown for the gross proceeds, one to record details of each item and a second column to record totals. Two cash columns are similarly provided for the consignee's charges.

(2) C.L. = Consignment Ledger.  
P.L. = Personal Ledger.

through the Journal, but if many transactions occur, a separate Account Sales Book or Journal should be used to record the essential particulars and also to serve as a posting medium to the Ledger. An illustration of this book is given on page 39.

The Account Sales themselves are usually consecutively numbered in order of date received and separately filed on a special file so as to be available for further reference, when necessary.

### **Foreign Currencies.**

When the agent is in a foreign country, the Account Sales are usually rendered in local currency and will require to be converted into sterling before the necessary entries can be made in the consignor's books. As a general rule, the exchange rate used for conversion is the rate in force on the day the Account Sales are received.

Where, however, payment is made at a later date and the remittance is realized at a different rate of exchange, an adjusting Journal entry must be made, transferring the profit or loss on exchange to a Difference in Exchange Account. If, at balancing periods, the last-named account shows a credit balance (profit) such balance is usually carried forward as a reserve, but a debit balance (loss) should be written off to the debit of Profit and Loss Account. Alternatively, the difference in exchange may be transferred to the Consignment Account. Both methods are used, but the former is generally considered the sounder method.

### **Balancing the Consignment Accounts.**

At the end of each trading period the Consignment Accounts must be balanced and the method of

treatment varies according to whether the goods are unsold, partly sold, or wholly sold.

If no goods are sold, the balance of the Consignment Account, consisting of the cost price of the goods plus charges paid for freight and insurance, etc., is shown in the Balance Sheet as an asset. Where an advance or remittance is received against the consignment, the amount may be shown as a deduction from the Consignment Account on the assets, side of the Balance Sheet or, alternatively, shown as a separate item on the liabilities side.

When part only of the consignment is sold, the account must be analysed to ascertain the value of the unsold stock plus the proportionate charges thereon. This amount is credited to the consignment and carried forward to the next trading period ; it also appears in the Balance Sheet as an asset. The balance of the Consignment Account will then show whether a profit or loss has been made, a debit balance indicating a loss whilst a credit balance denotes a gain. This balance is transferred to the Profit and Loss Account.

If, however, all the goods are sold and the Account Sales are correctly entered, no adjustments are needed and the balance of the account (debit or credit, as the case may be) is transferred to the Profit and Loss Account.

### **Summary of the Entries in the Consignor's Books.**

The entries in the consignor's books may be summarized as follows—

(1) Debit the Consignment Account and credit the Goods on Consignment Account with the cost price of the goods.

(2) Debit the Consignment Account with freight, insurance, and other charges ; credit either Cash or, if unpaid, the creditor's personal account.

(3) Debit Cash or Bills Receivable with the amount of any



advance against the consignment, crediting the personal account of the consignee.

(4) Discounting charges may be debited to the Consignment Account or, alternatively, to a Discount Charges Account; the Bank Account being credited in either case

(5) Upon receipt of the Account Sales, (i) debit the consignee's personal account with gross proceeds and credit the Consignment Account; and (ii) debit the Consignment Account with the consignee's charges, commission, etc., crediting the personal account of the consignee.

(5a) An alternative method is to debit the consignee's personal account with the net proceeds and credit the Consignment Account.

(6) Debit Cash or Bills Receivable with remittances received in settlement and credit the consignee

(7) Balance the Consignment Account, transferring the balance to the Profit and Loss Account. Unsold goods must be credited before balancing and brought down on the debit side of the account.

(8) Close the Goods on Consignment Account by transfer to the Trading Account.

### A Fully-Worked Example.

The foregoing principles are illustrated in the following example—

On 1st January, 19.., Hall & Black, of London, shipped per s.s. *Alnwick* to James Brown & Co., Cape Town, 20 cases Gloves on consignment. The shipment consisted of—

- # 1/10 = 10 cases, each case containing 25 dozen pairs Ladies' Gloves, invoiced *pro forma* at 63s per doz; and
- # 11/20 = 10 cases, each case containing 20 dozen pairs Men's Gloves, invoiced *pro forma* at 70s. per doz.

The actual cost prices to Hall & Black were 61s. and 68s. per dozen respectively

James Brown & Co.'s commission was fixed at 3 per cent on the gross sale price and, as further remuneration, they were entitled to retain one-half of the sale price in excess of 73s. per dozen for the ladies' gloves and 80s. for the men's gloves.

The charges paid in London were—

	£	s.	d.
Dock Dues, etc.		6	5 -
Freight to Cape Town		48	12 6
Marine Insurance		3	7 6

Hall & Black drew on James Brown & Co. for £1,000 at 60 days' sight, discounting the bill of exchange with their bankers, the discount charges amounting to £2 12s. 6d.

On 28th March, Hall & Black received Account Sales showing that 100 dozen of the ladies' gloves had been disposed of at 73s. and the remaining 150 dozen at 74s., while 100 dozen of the men's gloves had been sold at 81s. per dozen.

The charges at Cape Town were—

	£	s.	d.
Landing Charges . . . . .	7	12	6
Warehouse Rent . . . . .	2	5	—
Fire Insurance . . . . .	1	12	6
Sale and Incidental Expenses . . . . .	2	5	—
Commission . . . . .	39	15	—
Extra Remuneration . . . . .	6	5	—

Assuming that Hall & Black's financial year ends on 31st March, show how the above transactions are entered in their books.

**First Method.****JOURNAL**

		Fo.	Dr.			Cr.		
			£	s.	d.	£	s.	d.
19..								
Jan. 1	Consignment to James Brown & Co., Cape Town <i>Dr.</i>		1,487	10	—			
	To Goods sent on Consignment . . . . .					1,487	10	—
	<i>being shipment per s.s. "Alnwick"</i>							
	#1/10 = 10 cases Ladies' Gloves = 250 doz. @ 63s. . . . .							
	<i>£787 10 —</i>							
	#11/20 = 10 cases Men's Gloves = 200 doz. @ 70s. . . . .							
	<i>700 — —</i>							
	<i>£1,487 10 —</i>							
Jan. 1	Bills Receivable <i>Dr.</i>		1,000	—	—			
	To J. Brown & Co. . . . .					1,000	—	—
	<i>being draft at 60 d/s drawn against above consignment.</i>							
Mar. 28	J. Brown & Co. <i>Dr.</i>		1,325	—	—			
	To Consignment to J. B. & Co. . . . .					1,325	—	—
	<i>being gross proceeds as per account sales.</i>							
	100 doz. Ladies' Gloves @ 73s. . . . .							
	<i>£365</i>							
	150 doz. do. do. 74s. . . . .							
	<i>555</i>							
	100 doz. Men's Gloves @ 81s. . . . .							
	<i>405</i>							
	<i>£1,325</i>							

**First Method (continued)—**

19..		£	s	d	£	s	d
Mar 28	Consignment to J. B. & Co. <i>Dr</i> To J. Brown & Co <i>being charges, etc., incurred at Cape Town—</i> <i>Landing Charges</i> £7 12 6 <i>Warehouse Rent</i> 2 5 — <i>Fire Insurance</i> 1 12 6 <i>Sale and Incidental Expenses</i> 2 5 — <i>Commission</i> 39 15 <i>Extra Remuneration</i> 6 5 —  <u>£59 15 -</u>	59	15	—	59	15	—
Mar. 31	Goods on Consignment Account <i>Dr</i> To Consignment Reserve Account <i>being amount of reserve on goods not sold, viz., 100 doz. Men's Gloves @ 2s. = £10.</i>	10	—	—	10	—	—
Mar. 31	Goods on Consignment Account <i>Dr</i> To Trading Account <i>being balance transferred.</i>	1,477	10	—	1,477	10	—
Mar. 31	Consignment to J. B. & Co. <i>Dr</i> To Profit and Loss A/c <i>being profit on goods sold transferred.</i>	82	8	11	82	8	11
Mar. 31	Profit and Loss A/c <i>Dr</i> To Discount Charges A/c <i>being balance transferred.</i>	2	12	6	2	12	6

# CASH BOOK

Dr.		Cr.	
19.... Jan. 1		19.... Jan. 1	
To Bill Receivable— J. Brown & Co. . .	£ 1,000	By Consignment to J. Brown & Co.— Dock Dues . . . Freight . . . Marine Insurance . „ Discount Charges (on B/R, £1,000) . .	£ 6 48 3 2
Total Debits . .	£1,000	Total Credits . .	£60
			17 6

# Personal Ledger.

Dr.		Cr.	
19.... Mar. 28		19.... Jan. 1 Mar. 28 „ 31	
To Consignment Account .	£ 1,325	By Bill Receivable . . „ Charges, etc . . „ Balance c/d . .	£ 1,000 59 265
	£1,325		£1,325
Mar. 31 By Balance b/d . .	£265		

**Dr.**

CONSIGNMENT TO JAMES BROWN & CO.—CAPE TOWN

Dr.

5.

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# Nominal or General Ledger.

## GOODS SENT ON CONSIGNMENT ACCOUNT

Dr.		Cr.	
19....		19....	
Mar. 31	To Consignment Reserve .	J.	By Consignment Account
" 31	" Trading Account .	J.	
		£	£
		1,487	1,487
		10	10
		-	-

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## BILLS RECEIVABLE ACCOUNT

Dr.		Cr.	
19....		19....	
Jan. 1	To J. Brown & Co. .	J.	By Cash .
		£	C.B.
		1,000	1,000
		-	-
		-	-

## DISCOUNT CHARGES ACCOUNT

Dr.		Cr.	
19....		19....	
Jan. 1	To Cash .	C.B.	By Profit and Loss .
		£	
		2	2
		12	12
		6	6

CONSIGNMENT RESERVE ACCOUNT					Cr.	
Dr.					£	s. d.
			19 .. Mar. 31	By Goods sent on Consign- ment Account .	J.	10 -
						-

EXTRACT FROM TRADING ACCOUNT					Cr.	
Dr.					£	s. d.
			19 .. Mar. 31	By Goods sent on Consign- ment Account .	J.	1,477 10 -
						-

EXTRACTS FROM PROFIT AND LOSS ACCOUNT					Cr.	
Dr.					£	s. d.
19 .. Mar. 31	To Disct. Charges .	J.	£ 2 12 6	19 .. Mar. 31	J.	82 8 11

## EXTRACTS FROM BALANCE SHEET AT 31ST MARCH, 19..

<i>Liabilities.</i>	£	s	d	<i>Assets.</i>	£	s	d.
Consignment Reserve A/c . .	10	-	-	Sundry Debtor, J. Brown & Co. .	265	5	-
				Consignment to J. B. & Co. .	362	18	11

## ALTERNATIVE BALANCE SHEET

<i>Liabilities.</i>	£	s	d.	<i>Assets.</i>	£	s	d.
				Sundry Debtor, J. Brown & Co. .	265	5	-
				Consignment A/c £362 18 11			
				less Reserve 10			-
					352	18	11

**Second Method.**

When only the net proceeds are passed through the financial books, the consignment and the consignee's accounts will appear as given on page 50.



**JAMES BROWN & CO, CAPE TOWN**

JAMES BROWN & CO., CAPE TOWN											
Dr.								Cr.			
19.... Mar. 28	To Consignment Account	J.	£ 1,265	s 5	d —	19.. Jan. 1	By Bills Receivable	J.	£ 1,000	s. —	d. —
						Mar. 31	„ Balance c/d	v	265	5	—
			£ 1,265	5	—				1,265	5	—
Mar. 31	To Balance b/d	v	£265	5	—						

CONSIGNMENT TO JAMES BROWN & CO

CONSIGNMENT TO JAMES BROWN & CO										Cr.	
Dr.	19 ...	To Goods	.	.	J.	£	s.	d.	£	s.	d.
	Jan. 1	To Goods	.	.	J.	1,487	10	-			
	" 1	" Cash—	.	.							
		Dock Dues	.	.	C.B.	6	5	-			
		Freight .	.	.	"	48	12	6			
		Insurance	.	.	"	3	7	6			
		" Profit and Loss	.	.	"	82	8	11			
	Mar. 31				J.	£	1,628	3	11		
									£	1,628	3 11
	Mar. 31	To Balance b/d	.	.		£362	18	11			

## CHAPTER V

### DECIMALIZATION OF MONEY

IN connection with interest calculations, it is often convenient to reduce fractions of a £ to decimals, and this may be done readily by mere inspection.

The rule, which is an old but extremely useful one, is based on the fact that whilst there are 960 farthings in the £, the first three decimal places represent parts of 1,000 and, accordingly, it is necessary to make adjustments for the excess 40 (one in every 25) decimal places in the total of 1,000 parts to a £.

To convert shillings, pence, and farthings into decimals of a £, the rule is as follows—

(1) Take half the number of shillings for the first two decimal places ; and

(2) Change the remainder into farthings, adding 1 if the number be 12 or over, or 2 if 36 or more. The unit figure of the farthings forms the third place and the “ tens ” increase the second place decimal.

**EXAMPLE.** Express 15s 10½d. as a decimal of a £.

$$\begin{array}{rcl}
 15\text{s. } 0\text{d.} & = & \cdot 75 \\
 10\frac{1}{2}\text{d} & = (41 + 2) = & \cdot 043 \\
 \text{Required Decimal} & & \underline{\underline{\text{£} \cdot 793}}
 \end{array}$$

To convert a decimal of a £ into shillings, pence, and farthings, the rule is—

(1) Adjust the decimal approximately correct to three decimal places.

(2) Divide the first two figures by 5 to obtain the number of shillings.

(3) Call the remaining figures (second and third place decimals) farthings, deducting 1 if over 12 or 2 if over 36.

EXAMPLE. Convert £.594 into shillings and pence.

$$£.594 = 11 \text{ shillings} + (44 - 2) \text{ farthings} = 11\text{s. } 10\frac{1}{2}\text{d.}$$

This method of decimalization gives an exact result where the sterling figure is an exact number of shillings or a multiple of sixpence. For other fractions of a £, only an approximation is obtained, but the approximation is correct to the nearest farthing. For most commercial calculations, a result correct to the nearest penny is sufficiently accurate, hence this method may be adopted with safety.

## CHAPTER VI

### AVERAGE DUE DATE

WHERE several transactions fall due for settlement at various dates, it is sometimes convenient to determine an "average due date" upon which the total amount may equitably be paid, with due regard to the interests of both parties concerned.

The average due date is also known as the "equated date" or "equated time of payment," and the process by which this date is ascertained is called the "equation of payments."

The method used is to take a convenient date (usually the date of the first transaction) as the zero date, multiply each amount by the number of days intervening between the zero date and the due date of that item. The products of the several items are added together and divided by the total of the original transactions. The result gives the number of days--the "equated term"--between the zero date and the average due date, thus enabling the latter date to be readily ascertained.

When calculating the number of days for purposes of average due date (and also for interest calculations) care must be exercised to avoid counting both the first and last days. The rule is to omit the first, and include the last, day. Thus, from the 1st to the 2nd July is reckoned as one day and, similarly, from the 1st to the 10th July is counted as nine days.

**EXAMPLE.** A merchant debits his client with the following amounts--

July 15.	Goods supplied	.	.	£250
Aug. 21.	" "	.	.	£650
Sept. 18.	" "	.	.	£600

Upon what date may the sum total be equitably paid ?

*First Method.* Zero date is taken as 15th July, the date of the first transaction

15th July to 21st August is 37 days

15th July to 18th September is 65 days

Date	Amount	Days.	Products
19	£		
July 15	250 ×	0 =	0
Aug. 21	650 ×	37 =	24,050
Sept 18	600 ×	65 =	39,000

£1,500	63,050
--------	--------

150%)63050(42·0

600

305

300

500

450

50

∴ Equated Term = 42·0 days (say, 42 days)

∴ Equated Date = 15th July + 42 days

= 26th August.

*Second Method.* Sometimes an arbitrary date is adopted as the zero date. Taking 1st July as the selected date, the working of the above example is as follows—

Date.	Amount	Days from 1st July.	Products.
	£		
July 15 . .	250 ×	14 -	3,500
Aug. 21 . .	650 ×	51 =	33,150
Sept 18 . .	600 ×	79 =	47,400
	£1,500		84,050

150%)84050(56·0

750

905

900

500

450

50

∴ Equated Term = 56·0 days (say, 56 days).

∴ Equated Date = 1st July + 56 days

= 26th August.

**Third Method.** The same result is obtained if the date of the last transaction (or, in fact, any other convenient date) is taken as the zero date. If 30th September is adopted as the zero date, the working will appear thus—

<i>Date</i>	<i>Amount</i>		<i>Days to 30th Sept</i>		<i>Products.</i>
	£				
July 15 . .	250	×	77	=	19,250
Aug. 21 . .	650	×	40	=	26,000
Sept. 18 . .	600	×	12	=	7,200
	<u>1,500</u>				<u>52,450</u>

$$\therefore \text{Equated Term} = \frac{52,450}{1,500} = 34.96 \text{ days (say, 35 days).}$$

$$\therefore \text{Equated Date} = 35 \text{ days earlier than 30th September} = 26\text{th August.}$$

### “ Combined ” Average Due Date for Debits and Credits.

The foregoing examples illustrate the method of ascertaining the average due date where the transactions are all of the same nature, i.e. debts payable. The underlying principle, however, is equally applicable where mixed transactions, that is, debts receivable (debits) and debts payable (credits) occur between two parties. In such cases, each item on both the debit and credit sides of the account is multiplied by the number of days from, or to, a convenient zero date, the cash items and the products being totalled and each total kept separate. The balance of the cash totals and the difference between the two products are ascertained, and this difference is divided by the cash balance. The resulting figure will be the equated term in days, which must be counted from the zero date.

**EXAMPLE.** The transactions of a merchant with his client are as stated below. Find the average date on which the balance may be equitably paid to close the account.

<i>Debits.</i>				<i>Credits.</i>			
		£	s. d.			£	s. d.
19				19..			
July 12.	To Goods	150	15 -	Aug. 10.	By Cash	120	- -
Aug. 16.	" "	285	6 -	Sept. 20.	" "	240	- -
Sept. 20.	" "	265	12 6	" 20.	" Balance		
					c/d	341	13 6
		<u>£701</u>	<u>13 6</u>			<u>£701</u>	<u>13 6</u>
Sept 20.	To Balance						
	b/d	£341	13 6				

**NOTE.** In modern commercial practice, where amounts include shillings and pence, it is customary (when calculating the products for the purpose of determining the average due date) to ignore fractions of a £ which are under 10s., whilst fractions amounting to 10s. and over are reckoned as a complete £. A similar rule is adopted for interest calculations.

Assuming that 12th July is taken as the zero date, the average date is ascertained thus—

<i>Debits.</i>				<i>Credits.</i>			
Date.	Amount.	Days	Products	Date.	Amount.	Days.	Products.
19	£			19....	£		
July 12.	151	× 0 =	0	Aug. 10.	120	× 29 =	3,480
Aug. 16.	285	× 35 =	9,975	Sept. 20.	240	× 70 =	16,800
Sept. 20.	266	× 70 =	18,620		<u>360</u>		<u>20,280</u>
	<u>702</u>		<u>28,595</u>				
Deduct	360		20,280				
Balance	<u>342</u>		<u>8,315</u>				

$$\therefore \text{Equated Term} = \frac{8315}{342} = 24.3 \text{ days (say, 24 days).}$$

The products are in favour of the debit side of the account, hence the equated term (say, 24 days) must be added to the zero date (12th July + 24 days), and the average due date on which the balance of the account (£341 13s. 6d.) equitably became due was 5th August.

**Interest Adjustments.**

Obviously, it is impossible to make a payment on a date which has been passed and, in order to adjust the rights of the parties, interest (usually at 5 per cent per annum) is added for the period which elapses from the average due date of payment. Thus, for the example under consideration, if settlement finally takes place on 30th September, interest for 56 days (5th August to 30th September) is added to the account.

Debit Balance due for payment on 5th August . . .	£	s.	d.
	341	13	6
Add interest for 56 days at 5 % p.a. on £342			
$\left( \frac{£342 \times 56 \times 10}{73,000} \right)$ . . . . .		2	12 6
Amount payable on 30th September . . . . .	£344	6	-

In the above example, interest is added to the account by reason of the average due date being a past one, but in other cases the average due date may, quite conceivably, be a future one. Where a final settlement is made on an earlier date than the average due date, an appropriate deduction is made for interest in respect of the intervening period. An example to illustrate this aspect is appended.

**EXAMPLE.** A merchant sells goods on two months' credit terms and receives payments on account as shown in the following summary. Ascertain the average due date on which the cash balance should be equitably paid, and also what amount should be paid on 31st August to close the account, interest being reckoned at 5 per cent per annum.

<i>Debits.</i>			<i>Credits.</i>	
Date.	Due date.	Amount.	Date.	Amount.
Apl. 17. To Goods,	17 June	£1,600	May 10. By Cash	£1,350
May 7. " "	7 July	1,500	June 11. " "	1,650
June 4. " "	4 Aug.	1,700		



Zero date being taken as 1st April, the following working results—

<i>Debits.</i>				<i>Credits.</i>			
Due date.	Amount.	Days	Products	Date.	Amount	Days	Products.
June 17.	£ 1,600	× 77	= 123,200	May 10.	£ 1,350	× 39	= 52,650
July 7.	1,500	× 97	= 145,500	June 11.	1,650	× 71	= 117,150
Aug. 4.	1,700	× 125	= 212,500				
	<u>4,800</u>		<u>481,200</u>		<u>3,000</u>		<u>169,800</u>
Deduct	3,000		<u>169,800</u>				
Balance	<u>1,800</u>		<u>311,400</u>				

$$\begin{aligned}\therefore \text{Equated Term} &= \frac{311,400}{1,800} \\ &= \frac{346}{2} = 173 \text{ days.}\end{aligned}$$

$$\begin{aligned}\therefore \text{Average Due Date} &= \text{1st April} + 173 \text{ days} \\ &= \text{21st September.}\end{aligned}$$

Amount payable on 21st September.	£	s.	d.
	1,800	-	-
Deduct allowance for interest, 21 days @ 5 % p.a.			
on £1,800 = $\frac{1,800 \times 21 \times 10}{73,000}$		5	3 7
Amount payable on 31st August	£1,794	16	5

## CHAPTER VII

### INTEREST CALCULATIONS

INTEREST is the monetary payment charged (or allowed, as the case may be) for the use of some other amount of money during a certain period at a fixed rate per cent per annum. The formula for the calculation of simple interest is—

$$\text{Principal} \times \frac{\text{Number of days}}{365} \times \frac{\text{Rate}}{100}.$$

Applying this formula to ascertain the simple interest on £342 for 56 days at 5 per cent per annum, the following equation is obtained—

$$\text{Interest} = £342 \times \frac{56}{365} \times \frac{5}{100}$$

The equation may be reduced to its simplest terms by cancelling out the factors, thus—

$\frac{342 \times \overset{14}{\cancel{56}} \times \overset{1}{\cancel{5}}}{\underset{73}{\cancel{365}} \times \underset{25}{\cancel{100}}}$ $= \frac{4,788}{1,825} = £2.623$ $= £2 \text{ 12s. 6d. (to nearest penny)}$	$\begin{array}{r} 18,2,5)4,788(2.623 \\ \underline{3,650} \\ 11,380 \\ \underline{10,950} \\ 430 \\ \underline{365} \\ 65 \\ \underline{54} \\ 11 \end{array}$
--	--

Under this method, however, the divisor often becomes a large and awkward figure, necessitating lengthy calculations and, therefore, it is not always advantageous to cancel out factors in this way. In fact, it is only when the number of days is 73 or a multiple of 73, that the cancellation of factors may

usefully be employed. It should be borne in mind that—

$$\begin{aligned} 73 &= \frac{1}{5} \text{ of } 365 \\ 146 &= \frac{2}{5} \text{ of } 365 \\ 219 &= \frac{3}{5} \text{ of } 365 \\ 292 &= \frac{4}{5} \text{ of } 365 \end{aligned}$$

Where the number of days is other than a multiple of 73, a better method (especially where many interest calculations have to be made) is to adopt a standard figure as divisor. Hence, "73" being a more simple divisor than "365," the practice has arisen of multiplying both the numerator and denominator by 2 so as to obtain a standard divisor of 73,000. The revised formula now reads—

$$\text{Principal} \times \frac{\text{number of days} \times \text{rate} \times 2}{365 \times 100 \times 2}$$

or, more simply—

$$\frac{\text{Principal} \times \text{number of days} \times \text{twice the rate}}{73,000}$$

Applying the revised formula to the interest calculation on page 59, the following working accrues—

Interest = $\frac{342 \times 56 \times 10}{73,000}$	73)191.52(2.623 . . .
	146
= $\frac{191,520}{73,000}$	455
	438
= $\frac{191.52}{73}$	172
	146
= £2.623	260
	219
	41
= £2 12s. 6d. (to nearest penny).	

It will be observed that when the divisor 73,000 is reduced to 73, the numerator is correspondingly reduced by inserting the decimal point three places to the left.

Where the rate per cent contains a fraction of  $\frac{1}{2}$ , such as  $3\frac{1}{2}$ ,  $4\frac{1}{2}$ , or  $5\frac{1}{2}$  per cent, the denominator of 73,000 is directly obtained in the first place. In such cases, it is not necessary to multiply the interest equation by 2.

**EXAMPLE.** The equation to obtain the simple interest on £451 for 112 days at  $4\frac{1}{2}$  per cent per annum is as follows—

$$\text{Interest} = £451 \times \frac{112}{365} \times \frac{4\frac{1}{2}}{100}$$

$$= \frac{451 \times 112 \times 9}{365 \times 2 \times 100}$$

$$= \frac{454,608}{73,000}$$

$$= \frac{454,608}{73}$$

$$= £6.227$$

$$= £6 \text{ 4s. 6d. (to nearest penny).}$$

Multiples of 73.	
1 =	73
2 =	146
3 =	219
4 =	292
5 =	365
6 =	438
7 =	511
8 =	584
9 =	657

For these calculations, where 73 is adopted as a standard divisor, it is advisable to construct a table giving the multiples of 73 similar to that shown in the margin.

### The Third, Tenth, and Tenth Rule.

The application of this rule to interest calculations provides an alternative (and easier) method of computing the interest, but it must be remembered that the method is an approximation. The error, however, is very slight, being only one ten-thousandth too much, say, one penny in every 10,000 pence (£41 13s. 4d.) of interest. It is a common practice, when using this method, to adjust the result by subtracting "one farthing for every £10 of interest." A more precise method, especially where large figures are concerned, is to deduct  $\frac{1}{10000}$ th from the result before it is converted into sterling.

The rule is based on the formula—

$$\frac{1}{73,000} = \frac{1 + \frac{1}{3} + (\frac{1}{10} \times \frac{1}{3}) + (\frac{1}{10} \times \frac{1}{10} \times \frac{1}{3})}{100,000}$$

Simplifying this equation—

$$\begin{aligned} \frac{1}{73,000} &= \frac{1 + \frac{1}{3} + \frac{1}{30} + \frac{1}{300}}{100,000} \\ &= \frac{300 + 100 + 10 + 1}{300} \times \frac{1}{100,000} \\ &= \frac{411}{300} \times \frac{1}{100,000} \\ &= \frac{137}{10,000,000} \\ &= .0000137 \end{aligned}$$

∴ If  $.0000137 = \frac{1}{73000}$   
Then  $.0000137 \times 73,000 = 1$   
and  $.0137 \times 73$  also equals 1.

.0137	73
.0411	959
1.0001	

But, as is shown by the marginal working,  $.0137 \times 73 = 1.0001$  and, therefore, the third, tenth, and tenth rule yields a result  $\frac{1}{100000}$ th in excess of the true result. A further proof of this rule is obtainable by adding  $\frac{1}{3} + \frac{1}{30} + \frac{1}{300}$  of itself to the whole number 73,000.

<i>Proof—</i>	Whole number	.	.	.	73,000
	Add $\frac{1}{3}$ rd	.	.	.	24,333 $\frac{1}{3}$
	Add $\frac{1}{10}$ th = $\frac{1}{10}$ th of $\frac{1}{3}$ rd	.	.	.	2,433 $\frac{1}{3}$
	Add $\frac{1}{300}$ th = $\frac{1}{10}$ th of $\frac{1}{10}$ th of $\frac{1}{3}$ rd	.	.	.	243 $\frac{1}{3}$
					100,010

Hence, when using the third, tenth, and tenth rule, we really take  $\frac{100001}{100000}$  (instead of  $\frac{100000}{100000}$ ) of the true result, and as previously shown  $\frac{1}{100000}$  or  $\frac{1}{100000}$  falls to be deducted to ensure accuracy.

### The Application of the Rule to Interest Calculations.

When applied to the interest calculations, the complete rule may be stated as follows—

(1) Multiply the principal by the number of days and the product by twice the rate per cent.

(2) Divide the second product thus obtained by 100,000, by inserting (or moving) the decimal point five places to the left.

(3) To this final product add  $\frac{1}{3}$ rd of it, then  $\frac{1}{10}$ th of  $\frac{1}{3}$ rd, and then  $\frac{1}{10}$ th of  $\frac{1}{10}$ th of  $\frac{1}{3}$ rd again.

(4) From the sum thus obtained, deduct  $\frac{1}{10000}$ th of itself, and the final result is the required interest.

As previously stated, the commercial practice generally is to calculate interest on the nearest complete £. If, however, it is desired to calculate the interest on the exact amount of the principal (i.e. pounds, shillings, and pence), the principal must be decimalized in the first instance.

**EXAMPLE.** Find the simple interest on £5,672 12s. 6d. for 120 days at  $5\frac{1}{2}$  per cent per annum.

5672-625	
120	
<hr/>	
680715-000	
11	
<hr/>	
7487865-000	÷ 100,000 =
	. . . . .
Add $\frac{1}{3}$ rd	. . . . .
Add $\frac{1}{10}$ th of $\frac{1}{3}$ rd	. . . . .
Add $\frac{1}{10}$ th of $\frac{1}{10}$ th of $\frac{1}{3}$ rd	. . . . .
	<hr/>
	102-58374
Deduct $\frac{1}{100000}$ th	. . . . .
	<hr/>
	102-573

$\therefore$  Required Interest = £102 11s. 6d.

The same result is attained by the ordinary method of working, viz.—

$$\begin{aligned}
 \text{Interest} &= £5,672\frac{1}{2} \times \frac{120}{365} \times \frac{5\frac{1}{2}}{100} \\
 &= \frac{4,5381}{8} \times \frac{120 \times 11}{365 \times 2 \times 100} \\
 &= \frac{45,381 \times 15 \times 11}{73,000} \\
 &= 102.573 \dots \\
 &= \underline{\underline{£102 \ 11s. \ 6d.}}
 \end{aligned}$$

Where the third, tenth, and tenth rule is adopted, it is necessary to show the working to the fifth decimal place (as in the example shown on page 63), in order to ensure that the final result is correct to the third decimal place.

## CHAPTER VIII

### THE APPLICATION OF THE "AVERAGE DUE DATE" PRINCIPLE TO INTEREST CALCULATIONS

COMMERCIAL interest calculations are, in many cases, separately extended in sterling on each item and, where a suitable rate of interest is employed, e.g. 5 per cent, a book of interest tables is commonly used. But there are many cases where interest tables are not suitable or not available, and to minimize the labour involved in separately calculating each item of interest, the principle of the "average due date" is applied to interest calculations where there are several transactions in any one account. As an illustration of this principle it may be pointed out that—

The interest on £700 for 5 days } is equal to } the interest on £3,500 for 1 day.

and again—

The interest on £800 for 8 days } is equal to } the interest on £6,400 for 1 day.

Amalgamating these two items it is seen that—

The interest on £9,900 for 1 day } is equal to } the combined interest on £700 for 5 days and £800 for 8 days.

The application of this principle to interest calculations necessitates the division of the formula for the calculation of interest into two portions, thus—

$$(a) \text{ Principal} \times \text{No. of days} = \text{Products}$$

$$(b) \text{ Products} \times \frac{\text{Rate}}{365 \times 100} = \text{Interest}$$

It will be observed that the "products" are obtained in the same manner as when computing the average due date.

Where many successive transactions occur, the products on each item are separately obtained and, at



the close of the period, the interest calculation for the total products is completed with the aid of the second portion of the formula. If both debit and credit transactions occur in the same account, the total debit products and the total credit products may be separately extended or, alternatively, the balance only of the products is extended into sterling. In modern practice, however, the total debit and credit products are separately extended only when different rates of interest are respectively charged and allowed for debit and credit items. Where the same rate of interest is adopted for both debit and credit transactions, the more usual method is to extend only the balance of the products.

The final extension of the products is the equivalent to an average of one day's interest on a sterling amount equal to the total (or the balance) of the products. Thus, in the undernoted example the equation  $\frac{24,840 \times 10}{73,000}$  is equivalent to one day's interest on £24,840.

**EXAMPLE.** What amount will be payable on 31st August for the following items, interest being added at 5 per cent per annum.

17th June	To Goods	.	.	£160
7th July	"	"	.	£150
4th August	"	"	.	£170

Date.	Particulars.	Amount.	Days.	Products.
		£ s. d.		
June 17	To Goods . . .	160 - -	75	12,000
July 7	" " . . .	150 - -	55	8,250
Aug. 4	" " . . .	170 - -	27	4,590
" 31	" Interest ( $\frac{24,840 \times 10}{73,000}$ )	3 8 -		
	Amount payable on 31st August . . .	£483 8 -		24,840

### Counting the Number of Days.

In reckoning the number of days for interest calculations, it is customary to include the closing date to which the account is made up, but not the commencing date of the account or the date of each transaction. For instance, the number of days in the first item of the above example is computed thus—

17th to 30th June (30-17)	= 13 days.
July	= 31 "
August	= 31 "
	<hr/>
	75 "
	<hr/>

Where the balance of an account is brought forward from one period to another, it is necessary to see that the closing date of the old account also forms the opening date of the new account. Thus, for an account which is closed and balanced on 30th June, the balance brought down to form the first item of the new account is entered under the date 30th June and not as 1st July.

For leap year 29 days are taken into account for February, but the total number of days in the year remains unaltered at 365 days for purposes of interest calculations.

On the Continent, the usual practice is to take 360 days to a year for interest calculations, but British traders invariably compute the number of days on the basis of 365 days in a year, and this method is used in the present volume.

A table of days is given on pages 70 and 71, from which the number of days between any two dates within a period of two years may be easily computed.

### Interest Tables.

On pages 68 and 69 is given a table showing the interest (expressed in decimals of a £) on £1 at 5 per cent per annum for any number of days in a year.

# 5 PER CENT INTEREST TABLE

SHOWING THE INTEREST ON £1 AT 5 % PER ANNUM FOR ANY NUMBER OF DAYS IN A YEAR

	0	1	2	3	4	5	6	7	8	9
0	—	·000137	·000274	·000411	·000548	·000685	·000822	·000959	·001095	·001232
10	·001369	·001506	·001643	·001780	·001917	·002054	·002191	·002328	·002465	·002602
20	·002739	·002876	·003013	·003150	·003287	·003424	·003561	·003698	·003835	·003972
30	·004109	·004246	·004383	·004520	·004657	·004794	·004931	·005068	·005205	·005342
40	·005479	·005616	·005753	·005890	·006027	·006164	·006301	·006438	·006575	·006712
50	·006849	·006986	·007123	·007260	·007397	·007534	·007671	·007808	·007945	·008082
60	·008219	·008356	·008493	·008630	·008767	·008904	·009041	·009178	·009315	·009452
70	·009589	·009726	·009863	·010000	·010137	·010274	·010411	·010548	·010685	·010822
80	·010959	·011095	·011232	·011369	·011506	·011643	·011780	·011917	·012054	·012191
90	·012328	·012465	·012602	·012739	·012876	·013013	·013150	·013287	·013424	·013561
100	·013698	·013835	·013972	·014109	·014246	·014383	·014520	·014657	·014794	·014931
110	·015068	·015205	·015342	·015479	·015616	·015753	·015890	·016027	·016164	·016301
120	·016438	·016575	·016712	·016849	·016986	·017123	·017260	·017397	·017534	·017671
130	·017808	·017945	·018082	·018219	·018356	·018493	·018630	·018767	·018904	·019041
140	·019178	·019315	·019452	·019589	·019726	·019863	·020000	·020137	·020274	·020411
150	·020548	·020685	·020822	·020959	·021095	·021232	·021369	·021506	·021643	·021780
160	·021917	·022054	·022191	·022328	·022465	·022602	·022739	·022876	·023013	·023150
170	·023287	·023424	·023561	·023698	·023835	·023972	·024109	·024246	·024383	·024520

5 PER CENT INTEREST TABLE (Contd.)

	0	1	2	3	4	5	6	7	8	9
190	-024657	-024794	-024931	-025068	-025205	-025342	-025479	-025616	-025753	-025890
190	-026027	-026164	-026301	-026438	-026575	-026712	-026849	-026986	-027123	-027260
200	-027397	-027534	-027671	-027808	-027945	-028082	-028219	-028356	-028493	-028630
210	-028767	-028904	-029041	-029178	-029315	-029452	-029589	-029726	-029863	-030000
220	-030137	-030274	-030411	-030548	-030685	-030822	-030959	-031095	-031232	-031369
230	-031506	-031643	-031780	-031917	-032054	-032191	-032328	-032465	-032602	-032739
240	-032876	-033013	-033150	-033287	-033424	-033561	-033698	-033835	-033972	-034109
250	-034246	-034383	-034520	-034657	-034794	-034931	-035068	-035205	-035342	-035479
260	-035616	-035753	-035890	-036027	-036164	-036301	-036438	-036575	-036712	-036849
270	-036986	-037123	-037260	-037397	-037534	-037671	-037808	-037945	-038082	-038219
280	-038356	-038493	-038630	-038767	-038904	-039041	-039178	-039315	-039452	-039589
290	-039726	-039863	-040000	-040137	-040274	-040411	-040548	-040685	-040822	-040959
300	-041095	-041232	-041369	-041506	-041643	-041780	-041917	-042054	-042191	-042328
310	-042465	-042602	-042739	-042876	-043013	-043150	-043287	-043424	-043561	-043698
320	-043835	-043972	-044109	-044246	-044383	-044520	-044657	-044794	-044931	-045068
330	-045205	-045342	-045479	-045616	-045753	-045890	-046027	-046164	-046301	-046438
340	-046575	-046712	-046849	-046986	-047123	-047260	-047397	-047534	-047671	-047808
350	-047945	-048082	-048219	-048356	-048493	-048630	-048767	-048904	-049041	-049178
360	-049315	-049452	-049589	-049726	-049863	-050000				

To read the above table, first look for the "tens" or "hundreds and tens" in the column at the extreme left of the table, then follow the line horizontally across the table until the desired unit figure is reached, when the intersection will give the desired interest expressed in decimals of a £.

EXAMPLES : Interest on £1 for 295 days is £.040411 = £0 : 0 : 10d.

" " Interest on £55 for 295 days is £.040411 × 55 = £2.222605 = £2 4s. 5d.

**TABLE TO ASCERTAIN THE NUMBER OF DAYS**  
**FIRST YEAR**

	Jan.	Feb	Mar.	April	May	June	July	Aug.	Sept	Oct	Nov.	Dec.
<b>1</b>	<b>1</b>	<b>32</b>	<b>60</b>	<b>91</b>	<b>121</b>	<b>152</b>	<b>182</b>	<b>213</b>	<b>244</b>	<b>274</b>	<b>305</b>	<b>335</b>
<b>2</b>	<b>2</b>	<b>33</b>	<b>61</b>	<b>92</b>	<b>122</b>	<b>153</b>	<b>183</b>	<b>214</b>	<b>245</b>	<b>275</b>	<b>306</b>	<b>336</b>
<b>3</b>	<b>3</b>	<b>34</b>	<b>62</b>	<b>93</b>	<b>123</b>	<b>154</b>	<b>184</b>	<b>215</b>	<b>246</b>	<b>276</b>	<b>307</b>	<b>337</b>
<b>4</b>	<b>4</b>	<b>35</b>	<b>63</b>	<b>94</b>	<b>124</b>	<b>155</b>	<b>185</b>	<b>216</b>	<b>247</b>	<b>277</b>	<b>308</b>	<b>338</b>
<b>5</b>	<b>5</b>	<b>36</b>	<b>64</b>	<b>95</b>	<b>125</b>	<b>156</b>	<b>186</b>	<b>217</b>	<b>248</b>	<b>278</b>	<b>309</b>	<b>339</b>
<b>6</b>	<b>6</b>	<b>37</b>	<b>65</b>	<b>96</b>	<b>126</b>	<b>157</b>	<b>187</b>	<b>218</b>	<b>249</b>	<b>279</b>	<b>310</b>	<b>340</b>
<b>7</b>	<b>7</b>	<b>38</b>	<b>66</b>	<b>97</b>	<b>127</b>	<b>158</b>	<b>188</b>	<b>219</b>	<b>250</b>	<b>280</b>	<b>311</b>	<b>341</b>
<b>8</b>	<b>8</b>	<b>39</b>	<b>67</b>	<b>98</b>	<b>128</b>	<b>159</b>	<b>189</b>	<b>220</b>	<b>251</b>	<b>281</b>	<b>312</b>	<b>342</b>
<b>9</b>	<b>9</b>	<b>40</b>	<b>68</b>	<b>99</b>	<b>129</b>	<b>160</b>	<b>190</b>	<b>221</b>	<b>252</b>	<b>282</b>	<b>313</b>	<b>343</b>
<b>10</b>	<b>10</b>	<b>41</b>	<b>69</b>	<b>100</b>	<b>130</b>	<b>161</b>	<b>191</b>	<b>222</b>	<b>253</b>	<b>283</b>	<b>314</b>	<b>344</b>
<b>11</b>	<b>11</b>	<b>42</b>	<b>70</b>	<b>101</b>	<b>131</b>	<b>162</b>	<b>192</b>	<b>223</b>	<b>254</b>	<b>284</b>	<b>315</b>	<b>345</b>
<b>12</b>	<b>12</b>	<b>43</b>	<b>71</b>	<b>102</b>	<b>132</b>	<b>163</b>	<b>193</b>	<b>224</b>	<b>255</b>	<b>285</b>	<b>316</b>	<b>346</b>
<b>13</b>	<b>13</b>	<b>44</b>	<b>72</b>	<b>103</b>	<b>133</b>	<b>164</b>	<b>194</b>	<b>225</b>	<b>256</b>	<b>286</b>	<b>317</b>	<b>347</b>
<b>14</b>	<b>14</b>	<b>45</b>	<b>73</b>	<b>104</b>	<b>134</b>	<b>165</b>	<b>195</b>	<b>226</b>	<b>257</b>	<b>287</b>	<b>318</b>	<b>348</b>
<b>15</b>	<b>15</b>	<b>46</b>	<b>74</b>	<b>105</b>	<b>135</b>	<b>166</b>	<b>196</b>	<b>227</b>	<b>258</b>	<b>288</b>	<b>319</b>	<b>349</b>
<b>16</b>	<b>16</b>	<b>47</b>	<b>75</b>	<b>106</b>	<b>136</b>	<b>167</b>	<b>197</b>	<b>228</b>	<b>259</b>	<b>289</b>	<b>320</b>	<b>350</b>
<b>17</b>	<b>17</b>	<b>48</b>	<b>76</b>	<b>107</b>	<b>137</b>	<b>168</b>	<b>198</b>	<b>229</b>	<b>260</b>	<b>290</b>	<b>321</b>	<b>351</b>
<b>18</b>	<b>18</b>	<b>49</b>	<b>77</b>	<b>108</b>	<b>138</b>	<b>169</b>	<b>199</b>	<b>230</b>	<b>261</b>	<b>291</b>	<b>322</b>	<b>352</b>
<b>19</b>	<b>19</b>	<b>50</b>	<b>78</b>	<b>109</b>	<b>139</b>	<b>170</b>	<b>200</b>	<b>231</b>	<b>262</b>	<b>292</b>	<b>323</b>	<b>353</b>
<b>20</b>	<b>20</b>	<b>51</b>	<b>79</b>	<b>110</b>	<b>140</b>	<b>171</b>	<b>201</b>	<b>232</b>	<b>263</b>	<b>293</b>	<b>324</b>	<b>354</b>
<b>21</b>	<b>21</b>	<b>52</b>	<b>80</b>	<b>111</b>	<b>141</b>	<b>172</b>	<b>202</b>	<b>233</b>	<b>264</b>	<b>294</b>	<b>325</b>	<b>355</b>
<b>22</b>	<b>22</b>	<b>53</b>	<b>81</b>	<b>112</b>	<b>142</b>	<b>173</b>	<b>203</b>	<b>234</b>	<b>265</b>	<b>295</b>	<b>326</b>	<b>356</b>
<b>23</b>	<b>23</b>	<b>54</b>	<b>82</b>	<b>113</b>	<b>143</b>	<b>174</b>	<b>204</b>	<b>235</b>	<b>266</b>	<b>296</b>	<b>327</b>	<b>357</b>
<b>24</b>	<b>24</b>	<b>55</b>	<b>83</b>	<b>114</b>	<b>144</b>	<b>175</b>	<b>205</b>	<b>236</b>	<b>267</b>	<b>297</b>	<b>328</b>	<b>358</b>
<b>25</b>	<b>25</b>	<b>56</b>	<b>84</b>	<b>115</b>	<b>145</b>	<b>176</b>	<b>206</b>	<b>237</b>	<b>268</b>	<b>298</b>	<b>329</b>	<b>359</b>
<b>26</b>	<b>26</b>	<b>57</b>	<b>85</b>	<b>116</b>	<b>146</b>	<b>177</b>	<b>207</b>	<b>238</b>	<b>269</b>	<b>299</b>	<b>330</b>	<b>360</b>
<b>27</b>	<b>27</b>	<b>58</b>	<b>86</b>	<b>117</b>	<b>147</b>	<b>178</b>	<b>208</b>	<b>239</b>	<b>270</b>	<b>300</b>	<b>331</b>	<b>361</b>
<b>28</b>	<b>28</b>	<b>59</b>	<b>87</b>	<b>118</b>	<b>148</b>	<b>179</b>	<b>209</b>	<b>240</b>	<b>271</b>	<b>301</b>	<b>332</b>	<b>362</b>
<b>29</b>	<b>29</b>	—	<b>88</b>	<b>119</b>	<b>149</b>	<b>180</b>	<b>210</b>	<b>241</b>	<b>272</b>	<b>302</b>	<b>333</b>	<b>363</b>
<b>30</b>	<b>30</b>	—	<b>89</b>	<b>120</b>	<b>150</b>	<b>181</b>	<b>211</b>	<b>242</b>	<b>273</b>	<b>303</b>	<b>334</b>	<b>364</b>
<b>31</b>	<b>31</b>	—	<b>90</b>	—	<b>151</b>	—	<b>212</b>	<b>243</b>	—	<b>304</b>	—	<b>365</b>

To read the above table, find the day of the month in the first column, then follow the line horizontally across the table until the desired month is reached, when the intersection will give the number of days from 1st January (both days inclusive).

For interest calculations, the commencing day is not counted, hence for periods commencing from 1st January, one day must be deducted. Thus, for the period 1st to 20th January the number of interest-bearing days is  $20 - 1 = 19$  days.

The second year table gives the number of days from 1st January of the previous year.

To ascertain the number of days in any given period, find the date from which

# BETWEEN ANY TWO GIVEN DATES WITHIN TWO YEARS

## SECOND YEAR

	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1	366	397	425	456	486	517	547	578	609	639	670	700
2	367	398	426	457	487	518	548	579	610	640	671	701
3	368	399	427	458	488	519	549	580	611	641	672	702
4	369	400	428	459	489	520	550	581	612	642	673	703
5	370	401	429	460	490	521	551	582	613	643	674	704
6	371	402	430	461	491	522	552	583	614	644	675	705
7	372	403	431	462	492	523	553	584	615	645	676	706
8	373	404	432	463	493	524	554	585	616	646	677	707
9	374	405	433	464	494	525	555	586	617	647	678	708
10	375	406	434	465	495	526	556	587	618	648	679	709
11	376	407	435	466	496	527	557	588	619	649	680	710
12	377	408	436	467	497	528	558	589	620	650	681	711
13	378	409	437	468	498	529	559	590	621	651	682	712
14	379	410	438	469	499	530	560	591	622	652	683	713
15	380	411	439	470	500	531	561	592	623	653	684	714
16	381	412	440	471	501	532	562	593	624	654	685	715
17	382	413	441	472	502	533	563	594	625	655	686	716
18	383	414	442	473	503	534	564	595	626	656	687	717
19	384	415	443	474	504	535	565	596	627	657	688	718
20	385	416	444	475	505	536	566	597	628	658	689	719
21	386	417	445	476	506	537	567	598	629	659	690	720
22	387	418	446	477	507	538	568	599	630	660	691	721
23	388	419	447	478	508	539	569	600	631	661	692	722
24	389	420	448	479	509	540	570	601	632	662	693	723
25	390	421	449	480	510	541	571	602	633	663	694	724
26	391	422	450	481	511	542	572	603	634	664	695	725
27	392	423	451	482	512	543	573	604	635	665	696	726
28	393	424	452	483	513	544	574	605	636	666	697	727
29	394	—	453	484	514	545	575	606	637	667	698	728
30	395	—	454	485	515	546	576	607	638	668	699	729
31	396	—	455	—	516	—	577	608	—	669	—	730

the period begins to run and deduct the number of days opposite this date from the number of days to the closing date.

**EXAMPLE.** The number of days in the period from 30th September to the following 25th March is ascertained thus—

25th March	.	.	.	.	449 days
30th September	.	.	.	.	273 "
Required number of days	.	.	.	.	176 "

If the year is a leap year, and 29th February occurs in the period for which the computation is made, one day must be added to the result.

From the table on pages 68 and 69 it is possible to ascertain the interest on any amount by simple multiplication.

**EXAMPLE.** The interest on £342 for 56 days may be ascertained thus—

$$\begin{aligned}
 \text{Interest on } £1 \text{ for 56 days} &= £ \cdot 007671 \\
 \text{„ } £342 \text{ for 56 days} &= £ \cdot 007671 \times 342 \\
 &= £2 \cdot 623 \dots\dots \\
 &= \underline{\underline{£2 \text{ 12s. 6d.}}}
 \end{aligned}$$

The table, however, may also be used to indicate directly the interest for one day on amounts from £1 to £365.

$$\begin{aligned}
 \text{EXAMPLE. Interest on } £342 \text{ for 1 day} &= £ \cdot 046849 \\
 \text{„ } £342 \text{ for 56 days} &= £ \cdot 046849 \times 56 \\
 &= £2 \cdot 623 \dots\dots \\
 &= \underline{\underline{£2 \text{ 12s. 6d.}}}
 \end{aligned}$$

It is, however, in connection with the calculation of interest by means of products that the table will be found most useful, since the extension of the products into sterling is the equivalent of one day's interest on the total products.

**EXAMPLE.** What is the interest on £24,840 for 1 day ?

$$\begin{aligned}
 &\text{Interest on } £24,800 \text{ for 1 day} \\
 &= \text{Interest on } £248 \times 100 \\
 &= £ \cdot 033972 \times 100 = £3 \cdot 3972 \\
 &+ \text{Interest on } £40 \text{ for 1 day} = \cdot 005479 \\
 &\qquad \qquad \qquad \underline{\underline{£3 \cdot 402679}} \\
 &= \underline{\underline{£3 \text{ 8s. 0d.}}}
 \end{aligned}$$

The table is based on the approximation that the interest on £1 for 1 day = £·001369 with adjustments for the higher amounts. More exactly, the interest on £1 for 1 day is £·001369863 . . . but to calculate the interest correct to the nearest farthing it is only necessary to obtain the first three decimal places correct. Hence, for all ordinary business calculations the table is quite reliable.

## CHAPTER IX

### THE DISTINCTION BETWEEN CURRENT ACCOUNTS AND ACCOUNTS CURRENT

A "Current Account" may be defined in general terms as an account which records a series of continuous transactions between two parties and, therefore, in a broad sense it includes that class of accounts which are more precisely known as "Accounts Current."

From one aspect, it may be said that Current Accounts are those continuous, running accounts in which interest is not included, as for example, a trader's Current Account with his banker, whilst Accounts Current are continuous, running accounts in which interest is charged (or allowed, as the case may be) on the component items. But this distinction is not altogether a happy one, as although the general practice of bankers is not to allow interest on the credit balances of Current Accounts, yet they invariably charge interest on debit (overdrawn) accounts. Moreover, there are a few bankers, more particularly in the provinces and in Scotland, where it is customary for interest to be allowed on the credit balances of Current Accounts.

Merchant traders, however, commonly have a series of mutual transactions with their clients abroad for whom, in many cases, they act as general agents. Goods are bought from and sold to their clients; consignments of merchandise or general produce to be sold to the best advantage may be dispatched, and bills of exchange drawn against such consignments by either party; and, further, payments may be made by the merchant trader to third parties on behalf of his client or by the client on behalf of the trader,



Obviously, the accounts recording such transactions may sometimes be "in debit" and, at other times, "in credit"; and, in an active account, the balance may fluctuate widely. Hence, in order to adjust equitably the rights of the parties, it is customary for interest on the various items to be included in the account. Such accounts necessarily stand in a class by themselves, and it is this class of accounts which is more precisely known as "Accounts Current."

Both Current Accounts and Accounts Current have, however, many features in common, and it will be convenient to consider the principal aspects of each class, their points of similarity and points of divergence.

### **Current Accounts with Bankers.**

The commonest form of Current Account is that which exists between a trader and his banker. Money deposited with the bank on "Current Account" gives the right to repayment on demand. The trader regularly deposits with his banker the money he receives for the goods he sells, and just as regularly withdraws money (by means of cheques) in payment of his purchases. The pass book issued by the bank records details of these continuous, running transactions in order of date, and where the pass book is headed—

"The Bank of London in account with A. Merchant,"

the trader will find that it agrees in form with his own Bank Cash Book, although the items will not, necessarily, appear in the same consecutive order. Where, however, the pass book is headed—

"A. Merchant in account with the Bank of London,"

it is a copy of the trader's ledger account as it appears

in the books of the bank, and, as compared with the trader's cash book, the items on the two sides of the account are reversed. Thus, payments into the bank by the merchant appear on the credit side of the pass book, whilst cheques paid out by the bank appear on the debit side.

### **Bank Current Accounts with Interest.**

Usually, English bankers expect their customers to keep a satisfactory balance at the credit of their Current Account and, when this is done, no charge is ordinarily made by the banker for the cost of the work involved in the collection and payment of cheques. Similarly, no allowance is made for interest on the money at the customer's credit. But when an overdraft is arranged, interest is always charged on the debit balance.

In the provinces, however, and also in Scotland, some bankers allow interest on Current Accounts when the customer keeps a balance at his credit but, on the other hand, a commission is charged on the total amount of payments made during each half year. The rate of commission varies according to the size and remunerativeness of the account, the average rate charged varying from  $\frac{1}{16}$ th to  $\frac{1}{8}$ th per cent. Usually, the rate of interest allowed on credit balances varies from  $1\frac{1}{2}$  to 2 per cent less than the prevailing Bank rate, and it may be calculated on the daily balances or on the minimum monthly balance according to the custom of the bank or to the terms of any special agreement. For debit or overdrawn balances, the rate generally charged is  $\frac{1}{2}$  to 1 per cent above Bank rate.

Bankers invariably credit their customers immediately with the amount of cheques paid in for collection,

although in many cases, e.g. country cheques, the bank does not receive the proceeds until two or three days later. The date of payment to the bank is the date entered in the pass book, but for interest purposes, the date of realization is the date from which the number of interest-bearing days is calculated.

### Form of Account.

The form of Ledger Account used by bankers for interest-bearing Current Accounts is on quite different lines from that used by merchants for Accounts Current. It should be noted, however, that the pass book does not usually show the details of the interest calculations, the only entries made being the total interest for the year or half year, as the case may be. The method of computation by means of products, as shown in the example on the next page, is commonly adopted.

This example is designed to illustrate—

- (1) The method of calculating the interest on the daily balances ; and
- (2) The method of balancing and closing the account.

Separate columns are provided for transactions, balances, and interest. The balance column serves for both debit and credit balances ; the debit entries being entered in red ink. But separate columns are also provided for debit and credit products.

In the example given, the balance at credit of Mr. A. Brown on 20th June, 19—, was £800 2s. 0d., and this remained unaltered till 22nd June, hence Mr. Brown is entitled to two days' interest on that amount. The products are calculated ( $800 \times 2 = 1,600$ ) and the total extended into the credit products column. On each occasion when the balance is altered, the closing balance for the day is similarly extended.

# Bank Current Account (with Interest).

Interest on credit balances at 2 per cent per annum and on debit balances at 5 per cent per annum.  
Commission chargeable— $\frac{1}{4}$ th per cent on total payments.

A. BROWN IN ACCOUNT WITH THE BANK OF LONDON, LTD.

TRANSACTIONS.						INTEREST.					
Date.	Particulars.	Debits.		Credits.		Balances.		No of Days	Debit Products.	Credit Products.	
		£	s. d.	£	s. d.	Dr or Cr.	Amount.				
19 —	Brought forward .										
June 20	By Cash .	5,010	10 6	5,810	12 6	Cr.	£ 800	B.F.	18,210	98,265	
" 22	To Lake .	600	—	750	18 —	Cr.	1,551	2		1,600	
" 24	" Burrows .	1,200	—					2		3,102	
" 27	To Wilson .	211	—			Dr.	249	3	847		
" 29	By Cash .			1,862	—	Dr.	460	2	920		
" 30	To Commission, $\frac{1}{4}$ per cent on £7,021 10s. 6d. .	8	15 6			Cr.	1,402	1		1,402	
" 30	By Balance Interest .	1,406	8 6	13	4 —				19,977	104,369	
" 30	To Balance c/d .			£8,436 14 6	£8,436 14 6				Credit Interest		
									$104,369 \times 10$	$=$ £14 5 11	
									$\frac{73,000}{73,000}$		
									Debit Interest		
									$19,977 \times 4$	$=$ 1 1 11	
									$\frac{73,000}{73,000}$		
June 30	By Balance b/d .			£1,406	8 6				Balance to credit	£13 4 —	

Notes. (1) The debit (overdrawn) balances, shown above in heavy type, are entered in the Bank Ledger Account in red ink.

(2) In some cases, an extra column is provided in the interest section to record alterations, if any, in the rates charged

At the close of the period, the products are extended into sterling figures, and as different rates of interest are reckoned on debit and credit balances, the totals are separately extended and the balance of the interest is transferred to the transactions column.

Finally, the transactions columns are totalled, the balance struck and carried down to form the first item for the new period.

### **Partnership Current Accounts.**

Another example of Current Accounts arises in connection with the personal accounts of partners in Partnership Accounts. These accounts are of two classes, viz., Capital Accounts and Current Accounts.

The Capital Account, strictly speaking, should record only the partner's fixed capital and additions or withdrawals of a permanent nature. The Current Account, on the other hand, records the partner's periodical transactions with the firm; his drawings in anticipation of, or against, profits being debited to this account, whilst interest on capital and profits realized are credited. Payments by the firm to third parties on behalf of a partner, and also any losses sustained, are debited to the Current Account.

An alternative method of procedure is to pass all entries through the Capital Account, which then becomes, in effect, a Current Account as well as a Capital Account. This, however, results in the balance of the Capital Account always being a fluctuating one. Where the profits and interest on capital exceed drawings, the capital is increased; whilst if the drawings are in excess of the combined total of profits and interest, the capital will be reduced.

### **Partnership Current Accounts with Interest.**

The partnership deed, in some cases, provides that

**EXAMPLE OF PARTNER'S CURRENT ACCOUNT WITH INTEREST**  
**ARTHUR BROWN. CURRENT ACCOUNT**

N.B.—The interest on capital is usually shown as a separate item as in the above example.

interest at a specified rate, usually 5 per cent per annum, shall be charged on partner's drawings, and interest at the same rate allowed on the balances at credit of both the Capital and Current Accounts. Where such a provision exists, it is a convenient practice to show the partners' Current Accounts in "Account Current" form as in the example shown on the previous page. Nevertheless, such accounts (although shown in Account Current form) are invariably styled "Current Accounts."

Again, the accounts of partners, upon a dissolution, may be adjusted in a similar manner. For example, a partner retires and the continuing partners agree to take over the assets and goodwill at a valuation, realize the debts, and pay off the liabilities; paying the outgoing partner a certain sum immediately, further instalments at intervals, and a final settlement at the end of, say, twelve months. Although, as a general rule, all calculation of interest ceases at the date of dissolution, yet in such cases as the foregoing, it is usual for interest to be allowed, and the most convenient method of presenting the accounts is in "Account Current" form.

In fact, for all accounts in which interest (whether by custom or agreement) is to be included, the most suitable form of account is that of the "Account Current."

## CHAPTER X

### ACCOUNTS CURRENT

AN "Account Current" may be defined as a detailed statement of account showing the record of a series of mutual dealings and transactions between two parties for a given period. Interest is charged (or allowed, as the case may be) at a fixed rate on each item on both sides of the account, and the account may be rendered monthly, quarterly, or at other periods as may be arranged. Usually, such an account is not settled in its entirety, but remittances in partial settlement are made from time to time and credited to the remitter.

It is quite obvious that, where mutual transactions occur, it is more convenient to have a running account between the parties in which the transactions are combined, rather than have a separate settlement for each transaction. But this necessitates the party who is the debtor retaining in his possession moneys belonging to the creditor, and, in order that the creditor shall obtain some compensation for the temporary loss of the use of the money, the practice of charging and allowing interest has arisen.

As there are mutual dealings between the parties, the closing balance at the end of any given period may be either a debit or a credit one, and any such balance is carried forward to form the first item for the new period.

#### **The Form of the Account.**

The Ledger Account is usually shown in the form on the next page.





is then transferred to the principal column, on the debit side of the account. After the interest is entered in the principal columns, the latter columns are totalled, the balance of the account being struck and brought down to form the first item for the next period.

The first named method is usually adopted where different rates of interest are chargeable on debit and credit items respectively, but, if the same rate of interest applies throughout the whole of the account, the second method is more generally used.

Usually, a 5 per cent rate is adopted throughout the account, but sometimes a higher rate is charged for debit items than is allowed for credits.

Where goods are invoiced upon credit terms, e.g. one month's credit, interest is calculated from the due date and not from the invoice date.

This class of accounts is principally used between merchant shippers and their clients abroad. In many cases, the merchant receives goods "on consignment" from his client and, when the goods are sold, the net proceeds are credited in the "Account Current." In the event of the client drawing a bill of exchange upon the merchant against the security of the goods consigned, the amount of the bill—upon acceptance—is debited to the client in "Account Current," interest being charged from the date of maturity, i.e. the date upon which it falls due for payment.

The use of "Accounts Current," however, is not confined to merchants; this form of account may advantageously be used for all those accounts in which interest is involved.

The customary practice is for the "Account Current" to be a copy of the Ledger Account of the client as it appears in the books of the merchant. Thus, the name of the client will appear first and the merchant's

name, last, as in the examples shown on pages 86 to 98. The accounts are usually signed by the merchants, and when the client has acknowledged that the account is correct, it is known as an "Account Stated."

### Methods of Calculating Interest.

There are, however, several methods used for the calculation of interest on the component items of Accounts Current. These methods include—

(1) The separate calculation of each item in sterling.

(2) Computation by means of "products" on the average principle, on

(a) the "forward" plan; and

(b) the *époque* or "backward" method.

(3) Computation by "interest numbers."

(4) Calculation by "steps," i.e. on the balance of the account from the date of one transaction to the next.

An explanation of the "sterling" method is given in an earlier chapter; consideration will now be given to the other methods.

The basic principles for interest calculations by means of products is dealt with in Chapter VII, and it now remains for these principles to be applied to Accounts Current; distinguishing between the "forward" and the *époque* or "backward" variations of this method. With both of these variations, a separate column is provided for the products, this column taking the place of the interest column in the "sterling" method.

Under the "FORWARD" SYSTEM, the closing date of the account is taken as "zero" and the number of days is calculated "forward" from the date of each transaction (or its due date, where credit is allowed)

to the closing date. The products are calculated on each component item in the account, but it is not necessary to calculate the products on the closing balance. At the end of the period, the balance of the products (or the totals) is extended into £ s. d., and dealt with in the same way as the interest is dealt with in the "sterling" method.

With the "*Époque*" or "BACKWARD" SYSTEM, however, the zero date may be either—

(a) the commencing date of the period of the account; or

(b) an arbitrary date, such as the first day of the month in which the first transaction occurs.

Where the commencing date is the zero date, there are no products to extend for the first item in the account, but if an arbitrary date is selected, the number of the intervening days between the zero date and the date of the first transaction must be counted and the products duly extended. The *époque* method is termed the "backward" because the number of days is counted "backward" for the past period from the date of the transaction (or its due date) to the zero date. It is necessary, in this method, to calculate the products on the closing balance of the account.

In effect, the *époque* system (as compared with the forward system) transposes the products and, therefore the balance of the products—as explained in the complete rule stated on page 88—is extended into £ s. d., and entered in the principal column on that side of the account on which the balance is entered. For this reason, the *époque* system may be used only where the same rate of interest is adopted throughout the account. It is not a suitable method to employ where varying rates of interest are charged.

The *époque* system may be advantageously employed

# Example of Account Current with Interest Calculated on Each Item.

DIFFERENT RATES OF INTEREST FOR DEBIT AND CREDIT ITEMS

Dr. EDDY BROS., CALCUTTA, IN ACCOUNT CURRENT WITH MERCATOR & CO., LONDON Cr.  
Interest till 31st July, 19.. at 5 per cent per annum on debit items and 4 per cent per annum on credit items

Date.	Particulars.	Fol.	Amount.	Days to 31 July.	Interest.	Date.	Particulars.	Fol.	Amount.	Days to 31 July.	Interest.
19..			£ s. d.		£ s. d.	19..			£ s. d.		£ s. d.
June 30	To Balance b/f		621 15 -	31	2 12 10	July 15	By A/c Sales, Tea, ex <i>Majorca</i> , No. 21 J.		221 5 6	16	7 9
July 10	" " Goods per s.s. <i>Poona</i>		540 18 -	21	1 11 1	" " " " No. 22 "		185 16 -	13	5 3	
" 21	" " " <i>Malwa</i>	S.J.	721 5 6	10	19 10	" " " " " " C.B.		1,500 -	3	9 11	
" 31	" " " <i>Nirva</i>	"	251 4 6			" " " " Interest at 4%					
" 31	" " Interest at 5% p.a.	J.	5 3 9			" " " " p.a.		1 2 11			
						" " " " Balance c/d	v	232 2 4			
			£2,140 6 9		£5 3 9				£2,140 6 9		£1 2 11
July 31	To Balance b/d	v	£232 2 4								

E. & O. E.

LONDON, 31st July, 19..

(Signed) MERCATOR & Co.

**Example of Account Current with Interest Calculated on the Average Principle by Means of Products.**

DIFFERENT RATES OF INTEREST FOR DEBIT AND CREDIT ITEMS

*Dr.*                      **EDDY BROS., CALCUTTA, IN ACCOUNT CURRENT WITH MERCATOR & CO., LONDON.**                      *Cr.*

Date.	Particulars.	Fol.	Amount.	Days to 31 July	Pro- ducts.	Date.	Particulars.	Fol.	Amount.	Days to 31 July	Pro- ducts.
19..			£	s	d	19..			£	s	d
June 30	To Balance b/f		621	15	-	July 15	By A/c Sales. Tea		221	5	6
July 10	" Goods per s.s. <i>Poona</i>		540	18	-		ex s.s. <i>Majorca</i> ,		185	16	-
" 21	" " <i>Malwa</i>		721	5	6	" 18	" " No. 21		1,500	-	-
" 31	" " <i>Nirva</i>		251	4	6	" 28	" Cash		1	2	11
" 31	" " Interest at 5% p.a.		5	3	9	" 31	" Interest at 4% p.a.				
	$\left( \frac{37,853 \times 10}{73,000} \right)$						$\left( \frac{10,454 \times 8}{73,000} \right)$				
July 31	To Balance b/d		£2,140	6	9	" 31	" Balance c/d		232	2	4
			£232	2	4				£2,140	6	9
											10,454

E. & O. E.

LONDON, 31st July, 19..

NORE. The "products" consist of the principal multiplied by the number of days. The completion of the interest calculation is effected thus—

$$\text{Products} \times \frac{1}{365} \times \frac{\text{Rate}}{100} \times \frac{2}{2} = \frac{\text{Products} \times \text{Twice the Rate}}{73,000}$$

(Signed) MERCATOR & Co.

in those cases where, at the commencement of the account, it is not known at what date the account will be closed or balanced. Under such circumstances, the adoption of the "forward" system necessitates the postponement of the interest calculations until the account is finally closed, but if the *époque* is adopted, the computation of the products may proceed simultaneously with the entry of each transaction in the account.

More usually, the "forward" system is used by British merchants and traders; and the "*époque*," by continental traders. The practice, however, is not universal.

### The Complete Rules for the *Epoque* System.

The complete rule may be stated as follows—

1. From the due date of each transaction calculate backwards the number of days to the commencing date of the account (or the given zero date, as the case may be); multiply the amount by the number of days and insert the result in the products column.
2. Ascertain the cash balance at the closing date of the account, calculate the products thereon in the same manner as above and insert the figures in the products column.
3. Total the products columns, ascertain the balance and insert it on the smaller side so that the totals of the two products columns agree
4. Extend the balance of the products into  $\text{£ s. d.}$ , and enter the amount in the principal column on the same side of the account.

It will be observed that, in the *époque* system, the balance of the products is dealt with in the opposite way to the "forward" system. Examples of the latter appear on pages 87, 90, and 97; and of the former, on pages 91 and 98.

### Interest Numbers.

Under this method, which is merely a variation of the products method, each product is divided by 100 and the resulting quotient to the nearest integer is

# Example of Account Current with Interest Calculated on Each Item.

THE SAME RATE OF INTEREST FOR BOTH DEBIT AND CREDIT ITEMS

SMITH, JONES & CO., CALCUTTA, IN ACCOUNT CURRENT WITH MERCATOR & CO., LONDON

Interest till 31st July, 19.., at 5 per cent per annum.

Dr.

Cr.

Date.	Particulars	Fol.	Amount.	Days to 31 July	Interest.	Date.	Particulars	Fol.	Amount.	Days to 31 July	Interest.
19..											
June 30	To Balance b/f		£ 785 5		£ 3 6	19..	By A/c Sales. Jute		£ 428 15		£ 1 2 4
July 10	" Goods per s s		358 16	31	1 8	July 12	ex <i>Minto</i> No. 51			19	1 2 4
" 15	" " <i>Poona</i>		525 14 6	21	1 3 1	" 16	A/c Sales. Tea		395 16 6	15	16 3
" 31	" Balance of In- terest at 5% p.a.		3 11 10	16		" 21	ex <i>Minto</i> No. 52				
						" "	Balance Inter- est transferred to debit.				
						" 31	" Balance c/d		848 15 10		3 11 10
									£ 1,673 7 4		£ 5 10 5
July 31	To Balance b/d		£ 848 15 10		£ 5 10 5						

E. & O.E.

LONDON, 31st July, 19..

(Signed) MERCATOR & Co.



**Example of Account Current with Interest Calculated on the Average Principle (Products by the "Forward" Method).**

SMITH, JONES & CO., CALCUTTA, IN ACCOUNT CURRENT WITH MERCATOR & CO., LONDON.

*Dr.*

Interest till 31st July, 19.., at 5 per cent per annum.

*Cr.*

Date.	Particulars.	Fol.	Amount.	Days to 31 July.	Pro- ducts.	Date.	Particulars.	Fol.	Amount.	Days to 31 July.	Pro- ducts.
19.. 30	To Balance b/f					19.. 12	By A/c Sales. Jute				
June 10	" Goods per Poona		£ 785 5 -	31	24,335	July 16	ex <i>Minto</i> , No. 51		£ 428 15 -	19	8,151
" 15	" " Malwa		358 16 -	21	7,539	" 31	A/c Sales Tea		395 16 6	15	5,940
" 31	" Interest at 5%		525 14 6	16	8,416	" 31	ex <i>Minto</i> , No. 52				
	Pa. $\left( \frac{26,199 \times 10}{73,000} \right)$		3 11 10			" 31	Interest products transferred to debit				
						" 31	Balance c/d		848 15 10		26,199
July 31	To Balance b/d		£ 1,673 7 4		40,290				£ 1,673 7 4		40,290
			£ 848 15 10								

E. & O. E.

LONDON, 31st July, 19..

(Signed) MERCATOR & Co.

**NOTE.**—The number of days is calculated "forward" from the date of the transaction to the closing date. For detailed explanation, see page 84.

**Example of Account Current with Interest Calculated on the Average Principle (Products by the Epoque or "Backward" Method).**

SMITH, JONES & CO., CALCUTTA, IN ACCOUNT CURRENT WITH MERCATOR & CO., LONDON.

*Cr.*

*Dr.* Interest till 31st July, 19.., at 5 per cent per annum.

Date.	Particulars.	Fol.	Amount.	Days from 30 June.	Pro-ducts.	Date.	Particulars.	Fol.	Amount.	Days from 30 June.	Pro-ducts.
19..			£ s. d.			19..			£ s. d.		
June 30	To Balance b/f		785 5 -	-	-	July 12	By A/c Sales. Jute ex <i>Minto</i> , No. 51		428 15 -	12	5,148
July 10	" Goods per s. <i>Poona</i>		358 16 -	10	3,590	" 16	" A/c Sales. Tea ex <i>Minto</i> , No. 52		395 16 6	16	6,336
" 15	" " <i>Malwa</i>		525 14 6	15	7,890	" 31	" Products on Cash Balance, £845 4s.			31	26,195
" 31	" Balance Interest at 5% p.a. $(\frac{26,199 \times 10}{73,000})$		3 11 10		26,199	" 31	" Balance c/d		848 15 10		
			£1,673 7 4		37,679				£1,673 7 4		37,679
" 31	To Balance b/d		£848 15 10								

E. & O. E.

LONDON, 31st July, 19..

NOTE.—The number of days is calculated "backward" from date of transaction to the commencing date. For detailed explanation, see page 85.

(Signed) MERCATOR & Co.

**Example of Account Current with Interest Calculated by Means of "Interest Numbers."**

SMITH, JONES & CO., CALCUTTA, IN ACCOUNT CURRENT WITH MERCATOR & CO., LONDON.

*Dr.*

Interest till 31st July, 19.., at 5 per cent per annum.

*Cr.*

Date.	Particulars.	Fol.	Amount.	Days to 31 July.	Interest Nos.	Date.	Particulars.	Fol.	Amount.	Days to 31 July.	Interest Nos.
19..			£ s. d.			19..			£ s. d.		
June 30	To Balance b/f		785 5 -	31	243	July 12	By A/c Sales. Jute		428 15 -	19	82
July 10	" Goods per Poona		358 16 -	21	75	" 16	ex <i>Minto</i> , No 51				
" 15	" " <i>Malwa</i>		525 14 6	16	84	" 31	A/c Sales. Tea		395 16 6	15	59
" 31	" Interest at 5% p.a. $\left( \frac{261 \times 10}{730} \right)$		3 11 6			" 31	ex <i>Minto</i> , No. 52				
						" 31	Interest num- bers transferred to debit.		848 15 6		261
			£1,673 7 -		402	" 31	Balance c/d		£1,673 7 -		402
July 31	To Balance b/d		£848 15 6								

E. & O. E.

(Signed) MERCATOR & Co.

N.B.—As explained on page 94, this method is an approximation and, consequently, the final interest shown is not exactly correct.

**Messrs. Smith, Jones & Co., Calcutta, in account with Mercator & Co., London.**  
**First Form.**

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entered in the interest number column. The numbers are totalled and balanced in exactly the same way as the products, but the divisor used in the completion of the final stage of the interest calculation is also divided by 100. Thus, the standard divisor of 73,000 under the products method now becomes 730.

The advantage of this method is the smaller number of figures used in the interest numbers. Its disadvantage is the repeated approximations which occur, and in a long account where many items occur, the method is not always to be relied upon for exactness. An example is given on page 92.

### **The "Steps" Method.**

Under this method, the interest is calculated on the varying balance of the account from the date of one transaction to the date of the next transaction. Examples of accounts illustrating this method are given on pages 77, 93, and 95, the interest calculations in the example on page 77 being shown by means of products and in the other two examples, in sterling for each item.

### **Red Ink Interest.**

It sometimes occurs that the due date of certain items in the accounts, as for example, Bills Receivable and Bills Payable, falls upon a date later than the closing date of the account. For such items it is customary to enter the interest for the period from the closing date to the due date in red ink in the interest column, and transfer it to the interest column on the opposite side of the account so as to adjust equitably the interest on such transactions.

In the example given on page 96 the Bill Receivable for £1,500 becomes due on 20th October, but it is credited by Mercator & Co. to Aldred & Jones in their

# **Example of Account Current with Interest Calculations on the "Steps" Method.**

**SMITH, JONES & CO., CALCUTTA, IN ACCOUNT WITH MERCATOR & CO., LONDON.**  
**Second Form.**

Date.	Particulars.	Fol.	Principal.		Balances.		Days.	Interest.	
			Dr.	Cr.	£	s d.			
19..									
June 30	To Balance b/f . . . . .		£ 785	5 -	Dr. 785	5 -	10	£ 1	s d 1 6
July 10	To Goods per Poona . . . . .		358	16 -	" "	114	2		6 3
" 12	By Account Sales. Jute, No. 51			428	" "	715	3		5 11
" 15	To Goods per Malwa . . . . .		525	14 6	" "	1,241	1		3 5
" 16	By Account Sales. Tea, No. 52 .			395	" "	845	15	1	14 9
" 31	To Interest at 5 % p.a. . . . .		3	11 10				£ 3	11 10
" 31	By Balance c/d . . . . .			848					
			£ 1,673	7 4					
July 31	To Balance b/d . . . . .			£ 848					

**NOTE**—In the second form of account, debit balances and debit interest are entered in black ink, whilst credit balances and credit interest are shown in red ink.

**Example of Account Current with Red Ink Interest. Interest Calculated on Each Item separately.**

ALDRED & JONES, CALCUTTA, IN ACCOUNT CURRENT WITH MERCATOR & CO., LONDON.

*Dr.*

Interest till 31st August, 19.., at 5 per cent per annum

*Cr.*

Date.	Particulars	Fol.	Amount.	Days to 31 Aug.	Interest.	Date	Particulars.	Fol.	Amount	Days to 31 Aug.	Interest.
19..					£ s. d.	19..			£ s. d.		£ s. d.
July 31	To Balance b/f		1,625 15 -	31	6 18 1	Aug. 12	By A/c Sales Tea			19	1 12 10
Aug. 15	" Goods per Nimrod		895 12 6	16	1 19 3	" 18	" 60 d/s draft per Agra Bank.		629 16 -		
" 28	" " Rajah		982 1 -	3	8 1	" 31	due 20th Oct		1,500 - -	50	10 5 6
" 31	" Interest in red				10 5 6	" 31	Balance Inter-				
" 31	" Balance Inter- est at 5% p.a.		17 18 1			" 31	est transferred to debit		1,391 10 7		17 18 1
						" 31	Balance c/d				
			£3,521 6 7		£19 10 11				£3,521 6 7		£19 10 11
Aug. 31	To Balance b/d		£1,391 10 7								

E. & O. E.

LONDON, 31st August, 19..

(Signed) MERCATOR & Co.

*N.B. — These figures appear in the account in red ink.*

**Example of Account Current with Red Ink Interest. Interest Calculations on the Average Principle (Products by the Forward Method).**

**ALDRED & JONES, CALCUTTA, IN ACCOUNT CURRENT WITH MERCATOR & CO., LONDON.**

*Cr.*

*Dr.* Interest till 31st August, 19.., at 5 per cent per annum.

Date.	Particulars.	Fol.	Amount.	Days to 31 Aug.	Pro- ducts	Date.	Particulars.	Fol.	Amount.	Days to 31 Aug.	Pro- ducts
19..						19..					
July 31	To Balance b/f		£ 1,625 15	—		Aug. 12	By A/c Sales Tea		£ 629 16	—	11,970
Aug. 15	" Goods per <i>Nimrod</i>		895 12 6	31	50,406	" 18	" 60 d/s draft per <i>Agra Bank</i> , due		1,500 —	—	175,000
" 28	" " <i>Rajah</i>		982 1	16	14,336	" 20	" 20th Oct				
" 31	" Interest pro- ducts in red			3	2,946	" 31	" Interest products transferred to debit				
" 31	" Balance Interest at 5% p.a. ( $\frac{130,718 \times 10}{73,000}$ )		17 18 1		75,000	" 31	" Balance c/d		1,391 10 7		130,718
									£ 3,521 6 7		142,688
Aug. 31	To Balance b/d		£ 1,391 10 7								

E. & O. E.

LONDON, 31st August, 19..

(Signed) MERCATOR & Co

*1 N.B.—These figures appear in the account in red ink.*





account dated 31st August; hence the balance of the account (on which interest is chargeable) is reduced at that date by the amount of the draft received. It will be seen, therefore, that Aldred & Jones receive credit for this draft 50 days earlier than its due date, and in order to adjust the rights of the parties, interest for that period must be debited to Aldred & Jones in the account.

Where the interest is calculated on the average principle by the "forward" products method, a similar procedure is adopted as shown in the example on page 97.

Under the "backward" method, however, the products are ordinarily calculated on the number of days from the due date of the transaction back to the commencing date of the account. The fact that the due date of one (or more) of the items is later than the closing date, does not alter the normal method of calculation of the products or the entries in the accounts and, therefore, red ink interest does not arise where this method is adopted. An example is given on page 98.

## CHAPTER XI

### JOINT VENTURES

JOINT Ventures (sometimes called " Joint Adventures " or " Joint Speculations ") are certain particular trading or speculative operations jointly undertaken by two or more persons who contribute to the cost and expenses of the operations and share mutually in the resultant profits or losses. Some of the elements common to partnerships are present in these ventures and, indeed, a joint adventure is defined in Bell's *Principles of the Law of Scotland*--

Joint adventure or joint trade is a limited partnership,<sup>1</sup> confined to a particular adventure, speculation, course of trade, or voyage ; and in which the partners, either latent or known, use no firm or social name and incur no responsibility beyond the limits of the adventure.

#### Does a Joint Venture Constitute a Partnership ?

Nevertheless, there are many associations together of traders in a joint transaction, such as a joint consignment of goods or a joint purchase and sale of property, stocks and shares, etc., which, from a commercial viewpoint, are not and are never intended to be a partnership in the full legal sense of the term.

On the other hand, Pollock in his *Digest of the Law of Partnership* states " I do not find that the incidents of a ' joint adventure,' as far as it extends, can be distinguished from those of a partnership." This viewpoint is supported in Holland's *Partnership Law and Accounts*, where the following passage occurs--

The partnership may be for a given business or a given transaction. The law recognizes no distinction and the law of partnership applies in either case. (*Read v. Hollinshead*, 1825.)

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<sup>1</sup> This phrase, as used here, must not be confused with " Limited Partnership " under the Limited Partnerships Act, 1907. The latter has a totally different meaning.

The question whether a particular association of adventurers does or does not constitute a partnership in the legal sense, is one that can be determined only after a full consideration of the facts of each case. In this connection, it may be of interest to quote the statutory definition of a partnership and extracts from the statutory rules for determining whether a partnership exists.

The Partnership Act, 1890, defines a partnership as "the relation which subsists between persons carrying on a business in common with a view of profit," whilst sec. 45 of that Act provides that "the expression 'business' includes every trade, occupation, or profession." Hence it appears that a partnership must possess three essential features—

- (1) A business ;
- (2) It must be jointly carried on ; and
- (3) The main object must be the acquisition of profit.

Obviously, the last two features occur in joint adventures, but whether the adventure constitutes "a business" depends upon the facts of each case.

Moreover, sec. 2 of the Partnership Act, 1890, lays down certain rules for the purpose of determining the existence of a partnership. These rules include the following—

(1) Joint tenancy, tenancy in common, joint property, common property, or part ownership does not of itself create a partnership as to anything so held or owned, whether the tenants or owners do or do not share any profits made by the use thereof.

(2) The sharing of gross returns does not of itself create a partnership, whether the persons sharing such returns have or have not a joint or common right or interest in any property from which or from the use of which the returns are derived.

(3) The receipt by a person of a share of the profits of a business is *prima facie* evidence that he is a partner in the business. . . .

The distinction drawn in the above rules between joint ownership and a share in the profits of a business,

should be clearly noted. It may be added, however, that the question whether a given adventure constitutes a partnership business, rarely arises except when the question of liability for debts in connection with the adventure is raised. In such circumstances, full consideration must be given to the whole of the facts of each case.

With many adventures, more particularly with joint consignments of merchandise, such a question does not occur, for the simple reason that purchases are invariably made on a cash basis and not on credit terms, whilst in some cases the goods are part of the consignor's ordinary stock-in-trade.

### **Classes of Joint Ventures.**

Before describing the accounts relating to joint ventures, it will be convenient to discuss typical examples of undertakings or operations which are aptly described as joint ventures. These undertakings include—

(1) The purchase and joint ownership of a ship, one of the joint adventurers becoming the "managing owner." In such cases, the adventurers are joint co-owners, each party having contributed a certain portion of the purchase price of the vessel.

The managing owner takes full responsibility for the management of the undertaking. He pays, from a joint fund, all the expenses incurred in provisioning and fitting out the vessel ; he also receives the earnings of the vessel in the shape of freight and passage money, etc.; and, usually, he is entitled to a percentage of the gross returns as his remuneration. After the completion of each voyage (or series of voyages), the venture accounts are prepared and the profits or losses divided in the agreed proportions ; each adventurer receiving

a copy of the final accounts accompanied by a remittance for his share of the profits. In the event of a loss being incurred, each party contributes a further sum, equal to the apportioned share of the loss, so that the joint fund remains intact.

(2) The joint chartering of a vessel either for a period of time or for certain voyages, the venture being managed in a similar manner to that outlined in the preceding example.

(3) *Joint Underwriting Operations.* Marine insurance underwriters commonly combine to take agreed proportions of certain classes of insurance business, appointing one of their number (or a third party) to act as manager on their behalf. The premiums are received by the manager, who also pays all expenses and any claims or losses incurred, the net balance of the premiums being divisible amongst the underwriters in the agreed proportions. In the event of the expenses and claims exceeding the premiums, each member of the underwriting "combine" contributes, in the agreed proportions, such further sum as may be required. At first sight, the continuity of these underwriting operations would appear to constitute it a "business," but it must be pointed out that the liability of the underwriters, individually, is limited to their respective proportions, the closing signatory clause of the final paragraph in a Lloyd's Policy reading thus—

And so we, the Assurers, are contented and do hereby promise and bind ourselves, each one for his own part. . . .

A characteristic feature of a partnership is that each partner is individually liable to the full extent of the partnership debts, and if one partner is insolvent, the other partners must make good his deficiency. It is the absence of this feature which distinguishes a joint

underwriting operation from a partnership business. But it must be added that, in some cases, underwriters do trade together "in partnership," usually as insurance brokers.

(4) Joint speculations in stocks and shares, each operator providing a stated portion of the original cost.

(5) Joint manufacturing operations, such as the spinning, weaving, dyeing, and finishing of cotton piece goods, etc. One person may undertake the spinning of the raw cotton, another the weaving of the cloth, a third person the dyeing and finishing, whilst a fourth may undertake the marketing and sale of the finished goods.

(6) *Joint Exploitation of a Patent.* An inventor produces a new invention and arranges with another person to finance and market the patented article, the inventor supervising its production. In some cases the patent may be sold to a company, the inventor and his co-adventurer receiving cash and shares in payment of the purchase price, and in such cases the joint venture accounts are closed on the completion of the sale. On the closure of the accounts an agreed valuation will be placed on the shares, and these shares (together with the balance of the cash remaining after payment of expenses) will be divided in such proportions as may be mutually agreed.

Where, however, the inventor and the other party agree to trade together and themselves work the patent, the "adventure" resolves itself into an ordinary partnership, and the rules relating to partnership accounts will then apply to the venture.

(7) The joint consignment of merchandise, the consignor supplying the goods which the consignee sells to the best advantage, profits or losses being divided equally or in other proportions as may be

agreed. Probably the most common form of joint venture is that of a joint consignment of goods.

The foregoing examples illustrate some of the principal classes of joint ventures, but they are not exhaustive. Joint ventures may, and they often do, take the form of any commercial transaction in which the interests of two or more persons may profitably be combined and employed.



## CHAPTER XII

### THE ACCOUNTS OF JOINT VENTURES

WHERE the joint venture takes the form of several successive operations (and particularly where one of the joint adventurers manages the undertaking on behalf of himself and his co-adventurers), it is a convenient practice to open a separate banking account and use a separate set of books to record the details of the various transactions. Separate personal accounts are opened for each adventurer, and each person is credited with his cash contributions and the value of goods supplied or services rendered. Personal accounts are opened for debtors and creditors; also appropriate real and nominal accounts to record the purchases of goods or other property, expenses incurred, and sales effected, etc.

When each venture is completed, a Joint Adventure Account is compiled; the profit realized or the loss incurred being divided amongst the adventurers, and credited (or debited, as the case may be) to their respective personal accounts.

These entries will be repeated until the entire series of the joint ventures is completed. Each adventurer will then receive back his original contribution together with his proportionate share of the total net profits. Where, however, losses are incurred or payments have been made on account of the profits, the final payment to each adventurer will represent the balance remaining at his credit. The books and accounts are then finally closed. In these circumstances, the accounts are raised in practically the same manner and under the same principles as for the accounts of a

partnership business. The ordinary rules regulating partnership accounts will, therefore, apply to the separate set of books.

The more usual practice, however, is for the accounts relating to "joint ventures" to be incorporated by each adventurer in his own set of books; each party opening a "JOINT ACCOUNT WITH . . . . . " in his ledger for the undertaking. As previously stated, the most usual form of Joint Venture Accounts arises in connection with the purchase and sale of goods on consignment, and these transactions are supplementary to their ordinary business. It is this class of joint venture which is, more particularly, incorporated by each adventurer in his own books. For example, A purchases and pays for certain goods, and he also pays the expenses of shipment to B. The latter pays landing expenses, cost of warehousing, etc., until the goods are sold, and it may be arranged that, pending the sale, he remits to A part of the value of the goods. Alternatively, A may draw a bill of exchange upon B, discounting the bill with his bankers. A, of course, advises B particulars of the original cost and expenses of shipment, etc. When the goods are sold, B prepares a statement showing the amount realized, etc., and after deducting the cost of the goods and expenses paid both by A and himself, the net profit or loss is divided in the agreed proportions.

There are two methods of dealing with the accounts recording these transactions, and these methods may be termed respectively the "personal" and "complete" methods.

### **The "Personal" Method.**

The personal method is one in which each party treats the Joint Account in his own books as though

it were a personal account, debiting it with all payments made and expenditure incurred, whilst all items received in respect of the joint venture are credited to the account.

When the undertaking is completed, each party renders to the other a copy of the account as it appears in his ledger, and a combined statement is prepared (outside the books) showing a complete summary of the transaction.

Assuming that a profit has been made, each party passes an entry through his own books, debiting the Joint Account and crediting Profit and Loss Account with his share of the profit. Where a loss has been incurred, each party must credit the Joint Account with his own share of the loss, debiting the same amount to the Profit and Loss Account. Finally, the books of one adventurer will show a debit balance on the Joint Account, whilst a credit balance of exactly the same amount will appear in the books of the other party; the latter closing the transaction by paying over to his co-adventurer the amount of this balance.

### **The "Complete" Method.**

Under this method, each party records in his own books a complete account of all the component items relating to the venture. To effect this result, each adventurer must advise the other party of his disbursements and receipts so that each may be able to pass through his books the necessary entries relating to his co-adventurer's transactions.

Each party must keep two accounts for the adventure, viz.—

- (1) A "JOINT ACCOUNT WITH . . . . ."
- (2) Personal account for the other party.

Each adventurer debits to the Joint Account (which is

really a trading account) all his disbursements in connection with the venture, the equalizing credit appearing either in the cash book or in a creditor's account. When advices are received from the other party to the venture, the amount of his co-adventurer's disbursements is credited to the latter's personal account and debited to the Joint Account, whilst moneys received by the co-adventurer are debited to his personal account and credited to the Joint Account. Bills of exchange or remittances passing between the parties will be debited (or credited, as the case may be) to their personal accounts.

Upon the completion of the undertaking, the balance of the Joint Account will represent the profit or loss on the venture. This balance is divided between the adventurers in the agreed proportions and is transferred, as to one party's share, to his own Profit and Loss Account, and the remaining share to the personal account of his co-adventurer ; profits being credited, whilst losses are debited, to the respective accounts. Finally, the personal accounts are closed by a remittance from the " debtor " adventurer to the " creditor " adventurer.

Many variations of joint ventures are to be met with in practical business life, but although the accounts raised may vary according to the nature of the transactions, the underlying principles remain the same. Three examples are appended to this chapter. The first shows the accounts for the joint purchase and working of a ship, it being assumed that a separate set of books relating solely to the venture is kept ; the second illustrates both the " personal " and " complete " methods of incorporating the transactions for a joint consignment in both the consignor's and consignee's books ; whilst the third example, relating to the

exploitation of a patent, assumes that the accounting records are kept by the party who finances the scheme and, at the close of the venture, renders copies of the accounts to his co-adventurer.

### First Example.

Archibald Brown, George Jones, and Edward Smith combine to form a syndicate to purchase a steamer. Their contributions to the capital of the syndicate are as follows—

A. Brown (24 shares)	£19,500 ;
G. Jones (24 shares)	£19,500 ; and
E. Smith (16 shares)	£13,000.

The s.s. *Swallow* is purchased for £48,000 and A. Brown is appointed managing owner, his remuneration being fixed at  $2\frac{1}{2}$  per cent on the gross earnings of the vessel.

The steamer is taken over on the 1st January, 19.., and sails from London on 10th January for Sydney, N.S.W., calling en route at Cape Town, Adelaide, and Melbourne. The gross earnings on the outward voyage are Passage Money, £2,285, and Freight, £6,650 ; and on the homeward voyage, Passage Money, £2,580, and Freight, £8,685. The steamer is insured on a time policy for 12 months, the premium amounting to £600, whilst the insurance premium on freight at risk is £95.

Other expenditure incurred is as follows—

Bunker Coal . . . . .	£4,320
Provisions and Stores . . . .	2,870
Wages and Salaries . . . . .	4,685

Captain's Disbursements—

Cape Town . . . . .	680
Adelaide . . . . .	1,155
Melbourne . . . . .	1,250
Sydney . . . . .	1,295

The homeward voyage is completed on 31st May, 19.., and the unused bunker coal is valued at £760, whilst provisions and stores remaining on board are valued at £345.

It is agreed that one-fifth of the net profits shall be transferred to reserve, the balance of the profit being divisible proportionately to the shares held.

A. Brown, as managing owner, keeps a separate set of books relating to the venture. Prepare the accounts for the voyage for submission to the members of the syndicate.

N.B. Under the British Merchant Shipping Acts, property in a British ship is divided into sixty-four shares.

# THE ACCOUNTS OF JOINT VENTURES

111

Dr.

## CASH BOOK SUMMARY

Cr.

1st JANUARY, 19.. TO 31st MAY, 19..

19.. Jan. 1	To Capital—	£	£	19.. Jan. 1	By Purchase of	£
	A. Brown	19,500			Steamer	48,000
	G. Jones	19,500			" Bunker Coal	4,820
	E. Smith	13,000			" Provisions and	
			52,000		Stores	2,870
During Half- Year	" Outward Voyage			During Half- Year	" Insurance Pre- miums—	
	Passage Money	2,285			Steamer	600
	Freight	6,650			Freight	95
	" Homeward Voyage				" Wages and Salar- ies	4,065
	Passage Money	2,580			" Captain's Dis- bursements—	
	Freight	8,685			Cape Town	680
					Adelaide	1,155
					Melbourne	1,250
					Sydney	1,295
					" Manager's	
					Remuneration	505
				May 31	" Balance c/d	6,745
			<u>£72,200</u>			<u>£72,200</u>
May 31	By Balance b/d		£6,745			

Dr.

## BUNKER COAL ACCOUNT

Cr.

19.. Jan., etc.	To Cash . . .	£	19.. May 31	By Voyage A/c	£
		4,320	" 31	" Balance c/d	3,560
		<u>£4,320</u>			<u>£4,320</u>
May 30	To Balance b/d	£760			

Dr.

## PROVISIONS AND STORES ACCOUNT

Cr.

19.. Jan., etc.	To Cash . . .	£	19.. May 31	By Voyage A/c	£
		2,870	" 31	" Balance c/d	2,525
		<u>2,870</u>			<u>£2,870</u>
May 31	To Balance b/d	£345			

Dr.

## INSURANCE OF STEAMER ACCOUNT

Cr.

19.. Jan., etc.	To Cash . . .	£	19.. May 31	By Voyage A/c	£
		600	" 31	" Balance c/d	250
		<u>£600</u>			<u>£600</u>
May 31	To Balance b/d	£350			

INSURANCE OF FREIGHT ACCOUNT				Dr.	Cr.
19.. Jan., etc.	To Cash . . .	£ 95	19.. May 31	By Voyage A/c . .	£ 95

VOYAGE ACCOUNT—S.S. SWALLOW				Dr.	Cr.
1st JANUARY, 19				TO 31st MAY, 19..	
To	Bunker Coal . . .	£ 3,560	By	Outward Voyage—	£
	Provisions and Stores . .	2,525		Freight	£ 6,650
	Insurance on Steamer, £ of £600 . . .	250		Passage	
	Insurance on Freight . .	95		Money	2,285
	Wages and Salaries . .	4,685			8,935
	Captain's Disbursements—			Homeward Voyage—	
	Cape Town	£ 680		Freight	£ 8,685
	Adelaide	1,155		Passage	
	Melbourne	1,250		Money	2,580
	Sydney	1,295			11,265
		4,380			
	Manager's Remuneration, 2½% on £20,200 . .	505			
	Balance c/d . . .	4,200			
		£20,200			£20,200
To	Reserve, 1/4th of £4,200 . .	840	By	Balance c/d . . .	4,200
	Division of Balance of Profits—				
	A. Brown 3/4ths . .	1,260			
	G. Jones 1/4ths . .	1,260			
	E. Smith 1/4ths . .	840			
		£4,200			£4,200

## BALANCE SHEET OF JOINT SYNDICATE

AT 31st MAY, 19 .

Capital and Liabilities.		£	Assets.		£
Capital—			Steamer Account—		
A. Brown . . .	19,500		s.s. Swallow . . .		48,000
G. Jones . . .	19,500		Bunker Coal . . .		780
E. Smith . . .	13,000		Stores and Provisions . .		345
		52,000	Cash . . .		6,745
Reserve Account . .		840	Unexpired Insurance on Steamer . . .		350
Divisible Profits—					
A. Brown . . .	1,260				
G. Jones . . .	1,260				
E. Smith . . .	840				
		3,360			
		£56,200			£56,200

NOTE.—Each member of the syndicate will receive a copy of the above Balance Sheet Voyage Account, and the Cash Book Summary.

**Second Example.**

On 1st June, 19.., A. Merchant & Co., of London, shipped per s.s. *Walmer Castle*, drapery goods to the value of £600 to Albert Sellars & Co., of Cape Town, the arrangement being that profits or losses on the consignment are to be shared equally. Charges incurred by A. Merchant & Co. were as follow:—

	£	s.	d.
Packing Charges . . . . .	8	12	6
Cartage, Dock Charges, etc. . . . .	1	17	6
Freight to Cape Town . . . . .	22	10	—
Marine Insurance, Stamps, etc. . . . .	2	12	6

On 12th June a bill of exchange at 60 days' sight is drawn upon A. Sellars & Co. for £480 and discounted, the discount charges amounting to £4 15s. 0d., these charges being divisible equally. The draft was accepted by Sellars & Co. on 25th June, 19..

On 4th July the goods are landed at Cape Town and are sold by Sellars & Co. on 1st August for £750. Charges incurred by consignees were as follows—

	£	s.	d.
Landing and Warehousing Expenses . . . . .	2	5	6
Cartage and Delivery . . . . .	2	18	6

The bill of exchange was retired under rebate by Sellars & Co. on 1st August, the rebate amounting to £2 1s. 6d., and thus also is divisible equally. Sellars & Co. made up the final accounts on 4th August and on the 6th August remitted by sight draft the balance due to A. Merchant & Co., the latter firm receiving the draft on 31st August. Prepare the accounts relating to the venture.

**Personal Method—Consignor's Books.****JOURNAL**

		£	s.	d.	£	s.	d.
19..							
June 1	Joint A/c with A. Sellars & Co Dr To Consignment Outwards A/c <i>being invoice cost of goods sent on joint consignment to A. Sellars &amp; Co.</i>	600	—	—	600	—	—
„ 12	Bills Receivable A/c Dr. To Joint A/c with A. Sellars & Co. <i>being amount of draft drawn on A. Sellars &amp; Co.</i>	480	—	—	480	—	—
Aug. 31	Joint A/c with A. Sellars & Co. Dr. To Profit and Loss A/c <i>being our share of net profit realized.</i>	53	5	—	53	5	—





LEDGER  
JOINT ACCOUNT WITH A. SELLARS & CO.

Dr.			£	s.	d.	19..		£	s.	d.	Cr.
19.. 1	To Goods	.	600	-	-	June 12	By Bill Receivable	.			£ 480
10	" Cash—	.				Aug. 31	" Balance c/d	.			213 12 6
	Packing Charges	.	8	12	6						
	Cartage and Dock	.									
	Charges	.	1	17	6						
	Freight to Cape Town	.	22	10	-						
	Marine Insurance	.	2	12	6						
12	" Discount Charges	.	4	15	-						
Aug. 31	" Profit and Loss A/c	.	53	5	-						
			£693	12	6						£693 12 6
Aug 31	To Balance b/d	.				Aug. 31	By Cash (Sight Draft)	.			£213 12 6

N.B. The complete Joint Account is raised outside the books. In form it will appear exactly as shown on page 123.

# CONSIGNMENT OUTWARDS ACCOUNT

Dr.						Cr.
			19.. 1	By Joint A/c		£ 600
			June 1			s. d.
						- -

# BILLS RECEIVABLE

Dr.						Cr.
19.. 12	To Joint A/c with A. Sellars & Co.	£ 480	19.. 12	By Cash		£ 480
June 12		s. d.	June 12			s. d.
		- -				- -

# PROFIT AND LOSS ACCOUNT

Dr.						Cr.
19..			19.. Aug. 31	By Joint A/c with A. Sellars & Co.		£ 53
						s. d.
						- 5 -

**Personal Method—Consignee's Books.****JOURNAL**

		£	s.	d.	£	s.	d.
19..							
June 25	Joint A/c with A. Merchant & Co. <i>Dr.</i> To Bills Payable <i>being acceptance of draft due 27th August.</i>	480	-	-	480	-	-
Aug. 1	Bills Payable <i>Dr.</i> To Joint A/c with A. Merchant & Co. <i>being rebate allowed on bill payable taken up this date.</i>	2	1	6	2	1	6
Aug. 1	Joint A/c with A. Merchant & Co. <i>Dr.</i> To Profit and Loss A/c <i>being our share of net profit realized.</i>	53	5	-	53	5	-

CASH BOOK (EXTRACTS)				Cr.	
Dr.				£	s. d.
19.. Aug. 1	To Joint A/c— Gross proceeds	19.. July 4	By Joint A/c— Landing Expenses	2	5 6
			Cartage and Delivery	2	18 6
		Aug. 1	„ Bill Payable, due		
			27th Aug. £480 0 -		
			less rebate 2 1 6	477	18 6
		6	By Joint A/c— Sight Draft to A. Merchant & Co	213	12 6
	Total Debit Items		Total Credit Items	£696	15 -

LEDGER  
JOINT ACCOUNT WITH A. MERCHANT & CO.

<i>Dr.</i>			<i>s.</i>	<i>d.</i>			<i>s.</i>	<i>d.</i>	<i>Cr.</i>
19. .	To Bill Payable . .	J.	£	480	19. .	By Cash (gross sale price) .	£	750	
June 25	" Cash—	C.B.	2	5	Aug. 1	" Rebate . .	2	1	
July 4	Landing Expenses .	"	2	18	" 1				
	Cartage and Delivery	J	53	5					
Aug. 1	Profit and Loss . .	✓	213	12					
" 1	" Balance c/d . .		£752	1					
				6					
			£752	1					
				6					
Aug. 4	To Cash Sight Draft .	C.B.	£213	12	Aug 1	By Balance b/d	£213	12	
				6					

Cr.

Dr.		BILLS PAYABLE ACCOUNT				Cr.	
19..				19..			
Aug. 1	To Cash .	:	CB	June 25	By Joint A/c .	:	
" 1	" Rebate	:	J.			:	
				<i>£</i> 477 18 6		<i>£</i> 480 - -	
				2 1 6			
				<i>£</i> 480		<i>£</i> 480 - -	

Gr.

PROFIT AND LOSS ACCOUNT										Cr.
Dr.										
19..							19.. Aug. 1	By Joint A/c . . .	£ 53	s. d. 5 -

**Complete Method—Consignor's Books.****JOURNAL**

		£	s.	d.	£	s.	d.
19..							
June 1	Joint A/c with A. Sellars & Co. <i>Dr.</i> To Consignment Outwards A/c <i>being invoice cost of goods sent on joint consignment to A. Sellars &amp; Co.</i>	600	-	-	600	-	-
June 12	Bills Receivable <i>Dr.</i> To A. Sellars & Co. <i>being amount of draft drawn on A. Sellars &amp; Co.</i>	480	-	-	480	-	-
Aug. 4	A. Sellars & Co. <i>Dr.</i> To Joint A/c with A. Sellars & Co. <i>being gross sale price as advised.</i>	750	-	-	750	-	-
Aug. 4	Joint A/c with A. Sellars & Co. <i>Dr.</i> To A. Sellars & Co. <i>being charges paid by A. S. &amp; Co. Landing and Warehousing £2 5 6 Cartage and Delivery 2 18 6</i>	5	4	-	5	4	-
Aug. 31	A. Sellars & Co. <i>Dr.</i> To Joint A/c with A. Sellars & Co. <i>being amount of rebate allowed on prepayment of bill.</i>	2	1	6	2	1	6
Aug. 31	Joint A/c with A. Sellars & Co. <i>Dr.</i> To A. Sellars & Co. <i>being division of net profit.</i>	106	10	-	53	5	-
					53	5	-



## CASH BOOK (EXTRACTS)

CASH BOOK (EXTRACTS)		Cr.	
Dr.		£	s. d.
19..	To Bill Receivable . . .		
June 12	„ A Sellers & Co.—	480	— 0
Aug. 31	Sight Draft . . .	213	12 6
	By Joint A/c—		
	Packing Charges . . .		8 12 6
	Cartage and Dock		
	Charges . . .		1 17 6
	Freight to Cape Town		22 10 —
	Marine Insurance . .		2 12 6
	„ Joint A/c—		
	Discounting Charges		4 15 —
	Total Debit Items . .	£693	12 6
	Total Credit Items . .	£40	7 6

# LEDGER JOINT ACCOUNT WITH A. SELLARS & CO.

Dr.			£	s.	d.		£	s.	d.	Cr.
19.. 1	To Goods	J.	600	-	-	19.. 4				
June 10	" Cash					Aug.				
	" Packing Charges	C.B.	8	12	6	"				
	" Cartage and Dock Charges	"	1	17	6					
	" Freight to Cape Town	"	22	10	-					
	" Marine Insurance	"	2	12	6					
June 12	" Discount Charges	"	4	15	-					
Aug. 4	" A Sellars & Co.,									
	" Charges at Cape Town—									
	Landing and Ware-									
	housing	J.	2	5	6					
	" Cartage and Delivery	"	2	18	6					
" 31	" Balance c/d	✓	106	10	-					
			£752	1	6					
Aug. 31	To A Sellars & Co.	J.	53	5	-	Aug. 31				
" 31	" Profit and Loss A/c	J.	53	5	-					
			£106	10	-					
			£752	1	6					
			106	10	-					
			£106	10	-					

# A. SELLARS & CO., CAPE TOWN

Dr.			£	s.	d.	19..			£	s.	d.	Cr.
19.. 4	To Joint A/c—	J.				June 12	By Bill Receivable	J.				
Aug.	Gross Sale price		750	—	—	Aug. 4	" Joint A/c—		480	—	—	
" 4	Joint A/c—		2	1	6	" 31	Charges at Cape Town	J.	5	4	—	
	Rebate on Bill					"	Joint A/c—					
						"	Half Share of net	J.	53	5	—	
						"	Profit	C.B.	213	12	6	
						"	Sight Draft					
			£752	1	6				£752	1	6	

## CONSIGNMENT OUTWARDS ACCOUNT

Dr.			£	s.	d.	19..			£	s.	d.	Cr.
						June 1	By Joint A/c	J.	600	—	—	

## BILLS RECEIVABLE

Dr.			£	s.	d.	19..			£	s.	d.	Cr.
19.. 12	To A. Sellars & Co.	J.	480	—	—	June 12	By Cash	C.B.	480	—	—	

# PROFIT AND LOSS ACCOUNT

Dr.					Cr.
			19.. Aug. 31	By Joint A/c . . . J.	£ 53 5 -

## Consignee's Books.

Dr.	CASH BOOK (EXTRACTS)				Cr.
19.. 1 Aug. 5	To Joint A/c— Gross Sale price . . .	£ 750	19.. 4 July	By Joint A/c— Landing and Ware- housing Expenses . Cartage and Delivery Bill Payable, due 26th Aug. £480 - - less rebate 2 1 6	£ 2 5 6 2 18 6
			Aug. 1		
			Aug. 6	A Merchant & Co. . Sight Draft . .	477 18 6 213 12 6
	Total Debit Items . . .	£750		Total Credit Items . .	£696 15 -

## Complete Method—Consignee's Books.

## JOURNAL

19..		£	s.	d.	£	s.	d.
June 25	Joint A/c with A. Merchant & Co. <i>Dr.</i> To A. Merchant & Co. <i>Dr.</i> <i>being invoice cost of consignment.</i>	600	—	—	600	—	—
June 25	A. Merchant & Co. <i>Dr.</i> To Bills Payable <i>Dr.</i> <i>being acceptance of draft at 60 d/ sight against above consignment.</i>	480	—	—	480	—	—
June 25	Joint A/c with A. Merchant & Co. <i>Dr.</i> To A. Merchant & Co. <i>Dr.</i> <i>being charges paid by A. M &amp; Co.—</i> Packing Charges . £8 12 6 Cartage and Dock Charges . 1 17 6 Freight to Cape Town 22 10 0 Marine Insurance . 2 12 6 Discounting Charges 4 15 — <i>£40 7 6</i>	40	7	6	40	7	6
Aug. 1	Bills Payable <i>Dr.</i> To Joint A/c with A. Merchant & Co. <i>Dr.</i> <i>being amount of rebate allowed on earlier payment.</i>	2	1	6	2	1	6
Aug. 1	Joint A/c with A. Merchant & Co. <i>Dr.</i> To A. Merchant & Co. <i>Dr.</i> To Profit and Loss A/c <i>Dr.</i> <i>being division of net profits</i>	106	10	—	53	5	—
					53	5	—

LEDGER  
JOINT ACCOUNT WITH A. MERCHANT & CO.

Dr.		£	s.	d.	19..	By Cash—	£	s.	d.	Cr.
19..	To A. Merchant & Co.,				Aug. 1					
June 25	Invoice Cost of Goods	600	-	-		Gross Sale price	750	-	-	
" 25	" A. Merchant & Co.,				" 1	" Rebate	2	1	6	
	Charges in London—	8	12	6						
	Packing Charges	1	17	6						
	Cartage and Dock	22	10	-						
	Charges	2	12	6						
	Freight	4	15	-						
	Marine Insurance									
	Discount Charges									
July 4	" Cash—	2	5	6						
	Landing, etc.	2	18	6						
	Cartage and Delivery	106	10	-						
Aug. 1	" Balance c/d									
		£752	1	6			£752	1	6	
Aug. 1	To A. Merchant & Co.	53	5	-	Aug. 1	By Balance b/d	£106	10	-	
" 1	" Profit and Loss A/c	53	5	-						
		£106	10	-			£106	10	-	

Dr.

## A. MERCHANT &amp; CO., LONDON

Dr.							Cr.
19..	To Bill Payable	J.	£	s.	d.	19..	£
June 25	„ Cash : Sight Draft		480	-	-	June 25	600
Aug. 1			213	12	6	„ 25	
							40
						Aug. 1	7
							6
							53
			£693	12	6		5
							12
							6

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Dr.

## BILLS PAYABLE ACCOUNT

Dr.							Cr.
19..	To Cash		£	s.	d.	19..	£
Aug. 1	„ Joint A/c : Rebate		477	18	6	June 25	480
„ 1			2	1	6		
			£480	-	-		

Dr.

## PROFIT AND LOSS ACCOUNT

Dr.							Cr.
						19..	£
						Aug. 1	53
							5

**Third Example.**

Arthur Jones produces a new type of carburettor for self-combustion engines, and arranges with Ernest Newman to enter into a joint venture to perfect his experimental invention with a view to its ultimate sale. Jones is to be credited with £200 as the value of work already performed, and Newman contributes, on the 1st Jan., 19.., £500 to finance further experiments. No interest is to be paid on their capital, but it is agreed that Jones is to receive three-fifths of the net profits, Newman taking the remaining two-fifths.

The experiments are successful and the carburettor is patented on 31st May, when it is found that materials have cost £248, expenses £148; patent fees have absorbed £28 10s., and solicitor's charges £67 15s.

The invention is sold on 20th June to a limited company for £3,000, payable as to £1,500 in cash and £1,500 in fully-paid shares. These shares are duly allotted and the cash paid on 1st July.

Prepare the accounts (which are kept entirely by Newman) relating to the venture. It is agreed that the shares shall be divided in the same proportions as profits.

**JOURNAL**

19..			£	s.	d.	£	s.	d.
Jan. 1	Joint Account <i>Dr.</i>		200	-	-			
	To Arthur Jones . . .					200	-	-
	<i>being agreed value of A. Jones' experimental work.</i>							
June 20	New Company <i>Dr.</i>		3,000	-	-			
	To Joint Account . . .					3,000	-	-
	<i>being agreed sale price of new invention.</i>							
June 20	Joint Account <i>Dr.</i>		2,307	15	-			
	To Arthur Jones . . .					1,384	13	-
	To Ernest Newman . . .					923	2	-
	<i>being division of profit.</i>							
July 1	Shares Account <i>Dr.</i>		1,500	-	-			
	To New Company . . .					1,500	-	-
	<i>being allotment of shares credited as fully paid.</i>							
July 1	Arthur Jones <i>Dr.</i>		1,000	-	-			
	Ernest Newman <i>Dr.</i>		500	-	-			
	To Shares Account . . .					1,500	-	-
	<i>being distribution of shares.</i>							



# CASH BOOK

Dr.

Cr.

19.. Jan. 1	To E. Newman	19.. Jan. to May May 31	£ 500	s -	d. -	By Materials " Expenses " Patent Fees " Solicitor's Charges " Balance c/d	£ 248 148 28 10 67 15 7 15	s -	d. -
May 31 July 1	To Balance b/d " New Company	July 1	£500 7 15 1,500 £1,507 15	- - - -	- - - -	A. Jones " E. Newman	£500 584 13 923 2 £1507 15	- 13 2 15	- - - -

# LEDGER JOINT ACCOUNT

Dr.	19..		J.	£	s.	d.	19..	By New Company	J.	£	s.	d.
Jan. 1	To E. Jones	.	J.	200	-	-	June 20			3,000	-	-
Jan. to May	" Cash—	.										
	Materials	.	C.B.	248	-	-						
	Expenses	.	"	148	-	-						
	Patent Fees	.	"	28	10	-						
June 20	Solicitor's Charges	.	"	67	15	-						
	" Balance c/d	.	✓	2,307	15	-				£3,000	-	-
				£3,000	-	-				2,307	15	-
June 20	To Division of Profit—		J.	1,384	13	-	June 20	By Balance b/d	.			
	A. Jones 1/3ths	.	"	923	2	-						
	E. Newman 2/3ths	.								£2,307	15	-
				£2,307	15	-						

<i>Dr.</i>		ARTHUR JONES				<i>Cr.</i>	
						<i>£</i>	<i>s. d.</i>
19..	To Cash .	:	:	C.B.	19..		
July 1	" Shares	:	:	J.	Jan. 1	£ 584 13	-
" 1		:	:		June 20	1,000	-

<i>Dr.</i>	<b>ERNEST NEWMAN</b>						<i>Cr.</i>
19.. 1 July 1	To Cash . „ Shares	.	.	19.. 1 Jan. 1 June 20	By Cash „ Joint A/c (net profit)	C.B. . J.	f s. d. 500 - - 923 2 - <u>£1,423 2 -</u>

NEW COMPANY									
Dr.					Cr.				
19..								£	s. d.
June 20	To Joint A/c . . .	J.		19.. 1	By Cash . . .	:	:	1,500	- -
				July	" Shares	:	:	1,500	- -
				" 1				£3,000	- -

SHARES ACCOUNT									
Dr.					Cr.				
19..								£	s. d.
July 1	To New Company . . .	J.		19.. 1	By A. Jones . . .	:	:	1,000	- -
				July	" E. Newman	:	:	500	- -
								£1,500	- -



# APPENDIX I

## ABBREVIATIONS

<b>A/c or acct.</b> . . . .	Account	<b>Entd.</b> . . . .	Entered
<b>A/C</b> . . . .	Account Current	<b>Exc.</b> . . . .	Exceeding
<b>A/S</b> . . . .	Account Sales	<b>Exd.</b> . . . .	Examined
<b>A.S.</b> . . . .	Account Stated	<b>Exptr.</b> . . . .	Exporter
<b>A/v or ad val</b> . . . .	<i>Ad valorem</i>		
<b>B/E</b> . . . .	Bill of Exchange	<b>F.A.A.</b> . . . .	Free of all average
<b>bdl.</b> . . . .	bundle	<b>F.A.S.</b> . . . .	Free alongside ship
<b>bl.</b> . . . .	bale	<b>F.a.q.</b> . . . .	Fair average quality
<b>B/L</b> . . . .	Bill of Lading	<b>F.G.A.</b> . . . .	Foreign General Average
<b>B.o.T.</b> . . . .	Board of Trade	<b>F.P.A.</b> . . . .	Free of Particular Average
<b>B/P</b> . . . .	Bill Payable	<b>F.O.B.</b> . . . .	Free on board
<b>B/R</b> . . . .	Bill Receivable	<b>F.O.R.</b> . . . .	Free on rail
<b>brl.</b> . . . .	barrel		
<b>bxs.</b> . . . .	boxes	<b>G.A.</b> . . . .	General Average
<b>C/F</b> . . . .	Cost and Freight	<b>G.M.Q.</b> . . . .	Good merchantable quality
<b>C.F.I or C.I.F.</b> . . . .	Cost, Freight, and Insurance	<b>Gr.</b> . . . .	Gross
<b>Chts.</b> . . . .	Chests	<b>Gt. Gr.</b> . . . .	Great Gross
<b>cks.</b> . . . .	casks	<b>Gr. Wt.</b> . . . .	Gross weight
<b>c/s</b> . . . .	cases		
<b>cwt.</b> . . . .	hundredweight	<b>Hhd.</b> . . . .	Hogshead
<b>D/A</b> . . . .	Documents against Acceptance	<b>I.B.</b> . . . .	In Bond
<b>Dbk.</b> . . . .	Drawback	<b>Imptr.</b> . . . .	Importer
<b>D/d</b> . . . .	Days after date	<b>Int.</b> . . . .	Interest
<b>Deb.</b> . . . .	Debenture	<b>In trans.</b> . . . .	In transit
<b>Dft.</b> . . . .	Draft	<b>Inv.</b> . . . .	Invoice
<b>Dks.</b> . . . .	Docks		
<b>D/O</b> . . . .	Delivery Order	<b>J/A</b> . . . .	Joint Account
<b>D/P</b> . . . .	Documents against Payment (Bills of Exchange)	<b>Kilo.</b> . . . .	Kilogramme
<b>D.P.</b> . . . .	Duty Paid (Customs)	<b>lb.</b> . . . .	Pound weight
<b>D/s</b> . . . .	Days after sight	<b>Ld. or Ltd.</b> . . . .	Limited
<b>D/W</b> . . . .	Dock Warrant	<b>Ldg. &amp; del.</b> . . . .	Landing and delivery
<b>E. &amp; O.E.</b> . . . .	Errors and omissions excepted	<b>m.</b> . . . .	metre ; mile ; minute
<b>E.E.</b> . . . .	Errors excepted	<b>M/A</b> . . . .	Monthly Account

<b>m/d</b> . . .	month after date	<b>Qrs.</b> . . .	Quarters
<b>mfr.</b> . . .	manufacturer	<b>Qts.</b> . . .	Quarts
<b>mos.</b> . . .	months	<b>Regd.</b> . . .	Registered
<b>m/s</b> . . .	months after sight	<b>Rotn. No.</b> . . .	Rotation number
<b>N/N</b> . . .	Not to be noted (Bills of Exchange)	<b>S.E.o.O.</b> . . .	<i>Salvis erroribus et omissus</i> (Errors and omissions excepted)
<b>no.</b> . . .	number	<b>S.G. or Sp.Gr.</b> . . .	Specific Gravity
<b>n.o.o.</b> . . .	not otherwise enumerated	<b>Shipt.</b> . . .	Shipment
<b>n.p.</b> . . .	net proceeds	<b>Sks.</b> . . .	Sacks
<b>Nt. wt.</b> . . .	Net weight	<b>S.S. or s.s.</b> . . .	Steamship
<b>O/A</b> . . .	On account of	<b>Stg. or Ster.</b> . . .	Sterling
<b>o/c</b> . . .	overcharge; out of charge (Customs)	<b>Std. Gr.</b> . . .	Standard gross
<b>O/o</b> . . .	Order of	<b>Str.</b> . . .	Steamer
<b>%</b> . . .	per cent	<b>S.v.</b> . . .	Sailing vessel
<b>O.R.</b> . . .	Owner's risk	<b>Tes.</b> . . .	Tierces
<b>P/A</b> . . .	Power of Attorney	<b>T.q. or tel.quel.</b> . . .	<i>Tale quale</i> (grain trade)
<b>P.A.</b> . . .	Particular Average	<b>Tr.</b> . . .	Tare
<b>p.a.</b> . . .	per annum (by the year)	<b>T.T.</b> . . .	Telegraphic Transfer
<b>p.c.</b> . . .	per centum (by the hundred)	<b>Ull.</b> . . .	Ullage
<b>pcs.</b> . . .	pieces	<b>u.s.</b> . . .	under seal (Customs)
<b>per pro.;</b> . . .	{ <i>per pro.urationem</i> (on behalf of)	<b>U/w</b> . . .	Underwriter
<b>p.pro. ;</b> . . .		<b>W.A.</b> . . .	With Average (Marine Insurance)
<b>or p.p.</b> . . .		<b>Whl.</b> . . .	Wharf
<b>pkg.</b> . . .	package	<b>Whse.</b> . . .	Warehouse
<b>P.L.A.</b> . . .	Port of London Authority	<b>Whsekpr.</b> . . .	Warehouse-keeper
<b>P.P.I.</b> . . .	Policy proof of interest	<b>Wt.</b> . . .	Weight
<b>P.S.</b> . . .	Public Sale	<b>W/W</b> . . .	Warehouse Warrant
<b>Pro forma</b> . . .	As a matter of form	<b>Y.A.R.</b> . . .	York-Antwerp Rules (Marine insurance)
<b>Pro tem.</b> . . .	<i>Pro tempore</i> (for the time being)		

## APPENDIX II

### TECHNICAL TERMS AND DEFINITIONS

**Acceptance.** The signature of the drawee upon a Bill of Exchange "accepting the liability of payment at its due date." It is legally defined as "the signification by the drawee of his assent to the order of the drawer." (*Sec. 17 of the Bills of Exchange Act, 1882.*) The word "acceptance" is, however, sometimes used to denote a bill which has been accepted by the person upon whom it is drawn.

**Account Current.** A current account between merchants. (*See page 81.*)

**Account Sales.** A statement recording detailed particulars of the sale of goods by an agent. (*See page 11.*)

**Account Stated.** An account which the parties thereto have mutually agreed is correct.

**Bill for Acceptance.** This term denotes the dispatch of a Bill of Exchange by a trader to his debtor for acceptance. To the trader (the drawer) it is a Bill Receivable, whilst to the debtor (the drawee) it becomes, upon acceptance, a Bill Payable.

**Bill of Lading.** A document which acknowledges the receipt of goods on board a vessel for conveyance to a stated destination, and containing the terms and conditions on which the goods are carried. It is signed by the master of the vessel or by an authorized agent.

Usually, it is drawn in sets of three stamped copies (6d. stamp, impressed) and one unstamped copy, the latter being the master's copy and retained by him.

**Bill Payable.** A Bill of Exchange for which the drawee (the acceptor) must pay the amount thereof at its due date.

**Bill Receivable.** A Bill of Exchange for which the drawer (or his transferees) will receive the amount thereof at its due date.

**Bond.** Literally, a bond is an obligation or promise in writing to do some act or to pay something on or before a given date or in certain circumstances. Thus, in connection with the exportation of dutiable merchandise, a merchant is required to give a bond to H.M. Commissioners of Customs and Excise that the said goods will be duly exported and, further, that in the event of any breach of the conditions of the bond he (the merchant) will pay a named sum to the Customs authorities.

**Bonded Goods.** Dutiable goods which, upon importation, are deposited in a bonded warehouse and remain there until the duties are paid. Such goods are said to be "in bond."

**Bonded Warehouses.** Approved warehouses for which the proprietors have given a bond to H.M. Commissioners of Customs and Excise that they will allow merchandise deposited therein to be removed only when such removal is authorized by the proper customs officer. Merchandise may be removed for home consumption only upon payment of the appropriate duties. Alternatively,



they may be removed to another bonded warehouse or re-exported under bond without payment of duty. In some instances, certain "operations," such as blending and re-packing of tea, bottling wines and spirits, etc., may be performed on the goods whilst they remain "in bond." The deposit and delivery of the goods are under the continuous supervision of customs officers.

**Bought and Sold Notes.** These notes are the Contract Notes which merchants, brokers, and their clients exchange when a purchase or sale has been arranged between them. The quantity and description of the goods, price, terms of payment, time, place, and method of delivery and any other conditions to be observed by either party, are stated therein. Contract Notes for the sale of goods are exempt from stamp duty.

**Broker.** An agent for the purchase or sale of goods, his remuneration (termed "brokerage") usually being a percentage on the purchase or sale price.

**Certificate of Origin.** A document setting forth the place of origin, growth, or manufacture of goods which are being exported to certain countries where a preferential tariff on certain goods is in operation. For example, Great Britain levies a lower rate of duty on certain produce (tea, sugar, etc.), imported from the British Dominions and Colonies; and the colonial exporter must supply the British importer with a Certificate of Origin. Similar preferential tariffs in favour of British manufactures are in force in Australia, Canada, South Africa, and certain foreign countries, and British manufacturers must supply certificates of origin in the form required by the colonial or foreign government.

**Commission.** The remuneration payable to an agent for services rendered. It differs from brokerage, inasmuch as the latter term relates only to purchases or sales, but commission may be payable for services rendered in the transaction of other business besides purchases or sales.

**Consignee.** The person to whom goods are consigned or dispatched.

**Consignment.** (See page 1.)

**Consignor.** The person who sends or consigns goods to another

**Contract Notes.** (See Bought and Sold Notes.)

**Customs Duties.** The taxes levied by H.M. Commissioners of Customs and Excise on goods imported for home consumption. The equivalent taxes on goods manufactured in Great Britain are known as Excise Duties.

**Customs Entries.** The declarations (containing summarized particulars of the quantity, weight, nature, and value, etc., of the goods) which must be delivered to the Customs authorities on the importation or exportation of merchandise. Various forms are in use, according to the circumstances of each case.

A *Prime Entry* is the original or first entry made by an importer and lodged with the Customs authorities on the arrival of a steamer with an inward consignment of dutiable goods. Where the exact weight, etc., is not known, duty is calculated on an approximate amount, and a subsequent entry on which any balance of duty due is paid, is termed a *Post Entry*. When duty is overpaid on a *Prime*

**Entry**, the Customs officer issues an *Over-Entry Certificate*, by means of which the excess payment is refunded to the importer.

Where the importer wishes to defer payment of the duty, the goods must be deposited in a bonded warehouse, and a Warehousing Entry (stating *inter alia*, the name and situation of the warehouse) must be passed.

A *Free Entry* is used on the importation of "free goods," i.e. goods which are not liable to Customs duties.

Where the importer is unable (owing to the absence of the necessary documents) to pass a correct entry, a *Bill of Sight* must be lodged, and after the goods are landed, the entry is "perfected" by endorsement on the bill of sight; duplicate entries being subsequently passed on the correct forms.

The entries required on exportation of free goods are known as *Specifications*, the two principal classes being for (a) British and Irish goods, and (b) Foreign and Colonial merchandise free of duty or on which all duties have been paid. For dutiable goods, the entry takes the form of a *Shipping Bill*, and if the goods are exported from a bonded warehouse, a *Warehouse Warrant*, authorizing the delivery of the goods from the warehouse, must be lodged. Further, a "Bond" for the due exportation of the goods must (in most cases) be given to the Customs authorities. Special forms are used for certain classes of goods, full details of the Customs regulations, with specimen entry forms, are given in *The Import and Export Trade* (Pitman).

**Debenture.** From a commercial viewpoint, a debenture is a written acknowledgment of a debt. The term, however, is also used to denote the certificate issued by the Customs and Excise authorities entitling an exporter of dutiable goods to the drawback (*q.v.*) where the duty has been previously paid.

**Del Credere Agent.** An agent who, in consideration of an additional commission, guarantees the solvency of the buyer to whom goods are sold through his agency. The additional commission may be merged into, and form part of, the ordinary commission, or it may be charged separately. In the latter case, it is known as the *del credere* commission.

**Delivery Order.** An order given by the registered owner of goods to a shipowner, dock company, warehouse proprietor, etc., authorizing delivery of the goods named in the order. Where goods are deposited in a bonded warehouse an additional delivery order, signed by the proper Customs officer, must also be given.

**Dock Dues and Charges.** Charges made by dock companies and public authorities for the temporary use of their docks or wharves and for services rendered in the landing, examination, storage, or shipment of merchandise. Where goods are landed and warehoused, a *Consolidated Rate* is usually charged, such rate including and covering a certain period free of rent.

**Dock Warrant.** A document of title relating to goods deposited in a dock or riverside warehouse. It is a negotiable instrument, and the right of absolute ownership to the goods it represents passes to a *bona fide* transferee by endorsement and delivery of the warrant. It requires a 3d. stamp.

**Documentary Draft.** A Bill of Exchange, to which are attached the shipping documents (*q.v.*) of a shipment of merchandise, the bill being drawn against such shipment.

**Draft.** This term is sometimes used to denote an order for the payment of money; e.g. bills of exchange payable "on demand" or "at sight" are respectively termed "demand" and "sight" drafts.

In connection with merchandise, the term is variously used to denote—

(1) The allowance made by wholesale merchants to retail traders to compensate for the loss arising from re-weighing in small quantities, etc.

(2) The part contents of a package "drawn" and weighed off.

(3) The method of weighing a large consignment where the packages are small and of similar size. For example, packages of dried fruit, raw sugar, etc., may be weighed in "drafts" of five, i.e. five packages are weighed together.

**Drawback.** The amount refunded by H.M. Customs and Excise on the exportation of dutiable merchandise on which duty has previously been paid

**Drawee.** The person upon whom a Bill of Exchange is drawn.

**Drawer.** The person who draws a Bill of Exchange upon another person.

**Dunnage.** Articles used in stowage to protect cargo from damage during a voyage.

**Errors and Omissions Excepted (E. & O. E.).** The abbreviation (E. & O. E.) or its Latin equivalent (*S. F. et O.—Salvis erroribus et omissis*) is usually attached to shipping invoices, account sales, account current, etc., as a notification that any errors or omissions subsequently discovered will be duly adjusted. Under English law, a vendor always has the right to correct mistakes of fact, and this term is rarely used in the home trade. With the shipping trade, however, the phrase is generally adopted as a safeguard to prevent the foreign buyer pleading that the invoice total was final and conclusive

**First of Exchange.** Bills of Exchange upon foreign countries are usually drawn in sets of three, and are known as the "first," "second," and "third of exchange" respectively. The complete set forms one bill, and each part is expressed to be payable provided that the other two parts are unpaid. Only the first of exchange is stamped.

**Foreign Bill.** A Bill of Exchange drawn in one country and payable in another.

**Freight.** The amount payable for the carriage of goods by sea. The term is sometimes used to denote the cargo, as in the expression "ship and freight."

**Hypothecation.** The act of pledging documents which convey a right to property, the property remaining in the hands of a third party or (sometimes) in the owner's possession.

**Import and Export List.** The official list published by H.M. Stationery Office, Kingsway, London, W.C.2, on behalf of the Customs and Excise authorities. This list governs the classification of imports

and exports for statistical purposes, and all entries made to the Customs authorities must be in accordance with this list. The current rates of Customs duties payable are also shown.

**Landed Weight.** The actual weight of goods when they are landed from a ship. This weight usually differs from the original shipping invoice weight owing to evaporation, leakage, pilferage, etc.

**Landing Account.** An account compiled by the dock and warehousing companies of goods landed under their supervision, showing (1) the name of vessel, rotation number, and date of arrival; (2) the nature of the goods; (3) marks, numbers, weights, and description of packages, and (if warehoused) the date from which rent commences.

**Leakage.** An allowance made for loss or wastage of liquids, caused by evaporation, damage to packages, or otherwise.

**Lot Money.** Auctioneer's charges for expenses incurred in connection with the sale of goods by auction. For convenience, such goods are arranged into separate portions, piles, or parcels, and each separate part, termed a "lot," is sold separately. The expenses incurred in arranging the goods, printing catalogues, etc., are variously known as Sale Expenses, Lot Expenses, and Lot Money.

**Marine Insurance Policy.** A contract with a marine insurance company or Lloyd's underwriters (the assurers) who undertake to indemnify the shipper (the assured) against losses, according to the terms of the policy, in consideration of a monetary payment termed the premium.

**Payee.** This term is used to denote (1) the person to whom a Bill of Exchange or cheque is payable; or (2) the person to whom money is paid.

**Prompt.** The "settling day" on which the documents of title are taken up and payment is effected, for merchandise or produce sold by either private contract or public auction.

**Sampling Order.** An order upon a dock or warehousing company, authorizing samples to be drawn and delivered from goods stored. For dutiable goods, the sampling order must be countersigned by the Customs officer in charge.

**Sans Recours.** This phrase, which means "without recourse," is used in the endorsement and negotiation of Bills of Exchange, and indicates that the endorser (or drawer, as the case may be) disclaims responsibility in the event of the bill being dishonoured.

**Shipping Documents.** The complete set of documents relating to a shipment, i.e. bill of lading, marine insurance policy, merchant's invoices, and (where required) consular invoice and certificate of origin.

**Tally.** The checking of another's count. At dock and riverside warehouses, the clerk who checks the count of merchandise landed from a ship is known as a "tally clerk."

**Tare.** The allowance for the weight of the case, cask, bale, or outside cover of the package in which goods are packed. *Actual*

*tare* is the actual weight of the empty packages separately from the goods. *Average tare* is the weight of a certain percentage of the empty packages which are fairly representative of the whole. *Customary tare* is the allowance fixed by customary usage where the packages are of a uniform size and weight. *Estimated tare* is the allowance made when it is not convenient to separate the goods from the package, and other packages of similar size and weight are weighed so as to obtain an estimate.

**Tale Quale.** This term, or its French equivalent, *tel quel*, is used in contracts for the sale of grain and other produce "to arrive," i.e. whilst en route to port of destination. A sample is drawn from the bulk at time of shipment or the last "port of call," and the term *tale quale* indicates that the goods are held to be the same as the sample submitted, the buyer taking the risk of any damage the goods may afterwards sustain during the voyage.

**Telegraphic Transfer (T.T.).** A method of transferring money by cable from one country to another. For example, a person in London who wished to pay an amount to a person in Calcutta may pay the amount to a London banker, and the bank will cable to its Calcutta branch or agency instructions to pay the equivalent of that amount in the local currency (rupees), calculated at the current transfer rate for that day, to the person named by the sender. The cost of cabling, etc., is usually an additional charge.

**Tret.** An allowance of 4 lb. on every 104 lb. on certain articles of merchandise, for dust, waste, deterioration, or damage in transit.

**Ullage.** This term is used in two different ways. Commercially, it is used to indicate the difference between the quantity actually contained in a cask or barrel, etc., and its full capacity. In other words, ullage is the shortage in measure arising through leakage, breakage, or damage to the cask, barrel, etc. By the Customs authorities, "ullage" is taken to mean the actual contents of a cask, whilst the true ullage or shortage is termed the *vacuity*.

**Usance.** The period allowed by custom or usage for the currency of Bills of Exchange between various countries. Thus, the usance between London and New York is "sixty days after sight." In modern business practice, however, the "usance" is not always adopted, and the actual term for which bills of exchange are drawn is settled by arrangement between the parties.

**Warehousekeeper's Order.** The order issued by the Customs authorities to the warehousekeeper at a bonded warehouse where dutiable goods are lying, authorizing him—

- (1) To deliver goods on which the duty has been paid for home consumption ;
- (2) To deliver goods for removal to another bonded warehouse ; or
- (3) To deliver goods for exportation under bond.

**Warehouse Warrant.** This term is used in a general sense to describe all warrants relating to goods deposited in free, duty-paid, and bonded warehouses. More precisely, the warrants issued by the warehouse proprietors are termed *dock warrants*, whilst the documents issued by the Customs authorizing the removal of the goods from the warehouse, are known as *warehouse warrants*. The Customs documents are usually in three parts, the warrant itself,

warehousekeeper's order, and (when duty is paid) collector's memorandum of amount paid. The last-named is not required when goods are removed under bond to another warehouse or for exportation.

**Warrant.** A document which contains or conveys authority to act. For example, a *dock warrant* is not only a receipt for goods deposited in a dock warehouse, but it also authorizes its holder to claim delivery of the goods. Customs entries are also known as warrants, a prime entry being a warrant for the landing and delivery of the goods to their owner, whilst a warehousing entry authorizes landing and delivery to a specified warehouse.

# APPENDIX III

## EXAMINATION QUESTIONS

<i>Initials.</i>	<i>Examining Body.</i>
<b>C.A.</b>	. Institute of Chartered Accountants
<b>C.I.S.</b>	. . Chartered Institute of Secretaries
<b>L.A.A.</b>	. . London Association of Accountants.
<b>L.C.C.</b>	. . London Chamber of Commerce.
<b>L.C.U.</b>	. . Lancashire and Cheshire Union.
<b>R.S.A.</b>	. . Royal Society of Arts.
<b>S.A.A.</b>	. . Society of Incorporated Accountants and Auditors.

1. T. Russell, a Colonial merchant with an office in London, is an agent for Messrs Hall & Jones, of Christchurch, New Zealand, exporters of Canterbury lamb, etc. Included in the latter's 1922 season's shipment is a consignment of 7,000 carcasses (2,500 lambs and 4,500 sheep), shipped per s.s. *Achilles*. Mr. Russell disposed of the whole of this consignment, effecting sales as under at the prices stated—

1,500 Lambs, weighing	50,000 lb	at 7s. per stone of 8 lb., c.i.f.
1,000       "       "	34,000 lb.	at 6s. 9d. per stone of 8 lb. c.i.f.
2,500 Sheep       "	140,000 lb.	at 7d. per lb. ex store.
2,000       "       "	110,000 lb	at 6d. per lb. delivered

The charges paid in London in connection with this consignment were as under—

	£	s.	d.
Marine Insurance . . . .	161	2	4
Fire Insurance . . . .	2	10	1
Storage Charges . . . .	78	1	9
Port Rates . . . .	3	10	—
Cartage . . . .	9	1	11
Claims and Allowances . .	49	16	4

Hall & Jones drew a bill on their London agent at thirty days' sight for £10,000, which was duly honoured at maturity. Prepare an Account Sales of the consignment referred to, providing for London agent's commission at the rate of 1 per cent on the gross proceeds. Also record these transactions in the books of the consignee. (S.A.A.)

2. What is meant by a consignor "drawing a bill on his consignee against the goods consigned"? Show how such a bill is dealt with in the consignor's books. (C.I.S.)

3. Sugden & Co., of London, consigned to their agent, Hassan Ali, of Alexandria, goods of the value of £3,000. They drew on him for £2,000 at three months, discounting the bill at the National Bank

of Egypt (discount, £25). The charges for freight and insurance, etc., were £150. Subsequently Hassan Ali rendered an Account Sales to Sugden & Co., less commission, etc., £125, and enclosed a sight draft for the balance of the account, £1,375. Show, by means of journal entries, the transactions in Sugden & Co.'s books. (C.A.)

4. Messrs. J. Moss & Co., of London, consign goods to the cost amount of £1,500 to their agent, J. Solomon, Hong Kong, on which they pay freight, insurance, and charges £55, drawing on him at ninety days for £1,300. They discount the bill at Lloyds Bank, being charged £15 therefor. They receive Account Sales of the consignment for £1,729, less agent's commission, etc., £71, and a draft on the Bank of Hong Kong for the balance.

Make the entries necessary to record the above transactions in the books of Messrs. J. Moss & Co. (L.C.C.)

5. What is an "Account Sales"? In what particulars (if any) does it differ from a "Consignment Account"?

On 15th October, 19.., Delmaine Bros., of London, shipped to Donnison & Sons, of Port Elizabeth, 60 cases of mixed Sheffield goods. These goods were invoiced *pro forma* at £32 10s. 0d. per case.

The London payments in connection with this consignment were: Insurance, £10 12s. 0d.; freight, £54 12s. 0d.; sundry charges, £3 15s. 0d.

The payments made by Donnison & Sons, in South Africa, were: Storage, £16 12s. 0d.; landing charges, £6 10s. 0d.; insurance, £2 11s. 0d.

On 15th December, Donnison & Sons sold 30 cases of goods at £45 per case; on 17th December, 52 cases at £50 per case; and on 19th December, the balance of the consignment at £51 per case. All the above sales were effected for prompt cash. A commission is payable to Donnison & Sons of 2 per cent on all sales plus 1½ per cent *del credere* commission.

On 1st November, Delmaine Bros. drew a bill on Donnison & Sons for £1,000. This draft was duly accepted.

Prepare an "Account Sales" showing the result of the above consignment, and show how the transactions would appear in the books of Delmaine Bros. (L.C.C.)

6. Show how the following transactions will appear in the books of R. Plummer—

- |          |   |
|----------|---|
| Jan. 16. | R. Plummer received on consignment from Van Eldem & Co., 100 boxes of eggs, each containing 240 eggs, invoiced at 45s. per box.                       |
| " 18.    | Paid dock charges and dues, £24 10s. 0d.  |
| " 23.    | Sold for cash 30 boxes of eggs at 50s. per box.   |
| " 29.    | " " 70 " " 47s. 6d. per box.  |
| " 31.    | Sent to Van Eldem & Co., Account Sales of the consignment with sight draft for the balance due after deducting 10 per cent commission on gross sales. |



7. What is the difference between a "Consignment" and "Goods on Sale or Return"? Make the necessary entries in the books of A & Co., Ltd., to record the following transactions—

A & Co., Ltd., consigned goods value £1,650 to B & Co., the freight on which amounted to £130 and insurance, £80. B & Co. rendered an Account Sales for a portion of the goods which had realized £1,671, on which the expenses and commission amounted to £175 11s. 0d. The unsold portion was valued, at cost price, at £550. A sight draft was remitted for the amount due. (C.A.)

8. On 1st May, 19... A, of London, ships on consignment to B, of Cape Town, for sale by the latter upon A's account, 50 cases of goods invoiced *pro forma* at £10 a case. A commission of 3 per cent is payable to B upon sales, and all charges are borne by the consignor.

A pays freight and insurance in London amounting to £34 and draws upon B at 3 months' sight for £300 against the shipment.

B sells for cash 10 cases at £12 a case on 1st July, 19..., 25 cases at £13 10s. 0d a case on 15th July, and the balance on 28th July at £13 a case, having accepted A's draft on 1st June, 19... He forwards an Account Sales to A on 16th July, deducting the commission due and charges incurred, such charges amounting to £27 for landing, storage, etc., and remits a draft for the balance.

You are required to prepare the Account Sales and to show how the transactions would appear in the consignor's books. (C.I.S.)

9. Draw up an Account Sales for 50 bales wool from Hughes & Smith, Sydney, per s.s. *Lady Love*, sold in Manchester by Stevens & Co., at 6½d. per lb. The gross weight was 190 cwt. 3 qr. 14 lb.; tare and draft, 8 cwt. The charges payable are freight ¾d per lb. on gross weight, and primage 5 per cent. Fire insurance, £1; dock dues, £8 10s.; sale expenses, £1 1s.; brokerage, ¼ per cent; commission, 2½ per cent. Due date, 15th September, 19... (L.A.A.)

10. A B, of Rangoon, sold three bales of dry goods (for £36, £21, and £18 respectively) which had been consigned to him by C D, of Manchester. A B's payments in respect of these goods were dock charges, £3 2s. 4d., cartage, £3 4s. 7d.; and insurance, £8. He was entitled to a commission of 2½ per cent on the gross proceeds. Make out the Account Sales. (R.S.A.)

11. Alexanders & Co., wool brokers, sell "by order and on account and risk of" Pontifex & Rees, ex *Bendigo* at Australia, the following wool—

Marks.	Lot.	Bales.	Gross Wt.			Tare and draft.		
			c. qr. lb.			c. qr. lb.		
◇	89	25	89	2	4	3	2	0 at 2s. 2d. lb.
J.S.C.	90	28	101	3	2	3	2	15 at 1s. 11½d. lb.

Set out the Account Sales in proper form. N.B.—The candidate is himself to specify the various charges likely to be deducted from the gross proceeds, and to allot purely nominal amounts for each item, showing finally the net proceeds. (R.S.A.)

12. Draft out an Account Sales for 50 bales wool ex s.s. *John Sampson*, consigned by Horlick & Co., of Geelong, and sold on 15th December, 19... by Farrant & Co., of London, at 1s. 6½d per lb.; gross weight, 169 cwt. 3 qr. 2 lb.; tare and draft, 6 cwt. 3 qr. 0 lb. Charges: Freight, £68; dock charges (consolidated rate), 6s per bale; auction expenses, 7d. per bale; fire insurance, £1,550 at 2s. 9d. per cent; brokerage, ½ per cent on gross proceeds. Net proceeds due for cash on 31st December, 19... (R.S.A.)

13. A B, of London, and C D, of Durban, agree to combine in a joint shipment of South African goods to the former from the latter. It is agreed between the parties that C D is to draw a sight draft on A B for 75 per cent of the cost price of the goods, on the day of shipment. It is further agreed that the Account Sales rendered by A B to C D, when audited, is to be accepted by both parties.

Assume that there are no expenses in South Africa, and prepare a *pro forma* Account Sales, as rendered by A B, and describe the audit which you would conduct before appending your certificate. (C.A.)

14. Jacobs & Co., of Manchester, consign goods to their agent in Durban invoiced *pro forma* at £1,250, on which they pay freight, insurance, etc., £45; drawing on him at 90 days for £1,000. The bill is discounted at a cost of £22. An Account Sales of the consignment is received in due course for £1,525, and also a draft for the balance, after deducting 6½ per cent agent's commission and 1 per cent *del credere* commission. You are required to record these transactions in Jacob & Co.'s books, and to submit the Account Sales in the usual form. (C.A.)

15. Francis Carpenter, Ltd., of Northampton, sent 20 cases of boots, costing them £100, to Evans & Co., of Cape Town, on consignment account. Evans & Co. sold the goods for £195. They charged £10 10s. for expenses and 5 per cent commission for selling. The proceeds were remitted home by a sight draft on London.

Draw up the Account Sales furnished by Evans & Co., and show the journal entries in Francis Carpenter, Ltd.'s books. Prepare the draft on London and mark the amount of the stamp.

16. J. Brown & Co., London, have an account with D. Naorobi & Co., of Calcutta. According to Brown & Co.'s books, the debit balance on 1st July, 19..., was £319 12s. 6d. The following are the July transactions—

	19..			£	s.	d.
Debits.	July 3.	Shipment per <i>Mooltan</i> .	.	415	10	6
	" 18.	" " <i>Ranee</i> .	.	518	12	7
	" 22.	" " <i>Malaya</i> .	.	289	15	6
	" 26.	" " <i>Malacca</i> .	.	185	8	2
Credits.	July 5.	Draft at 10 days' sight.	.	319	12	6
	" 24.	" 3 " "	.	300	0	0

Interest rules at 5 per cent per annum. Set out the account in proper form as it appears in Brown & Co.'s books, showing the balance at 1st August, 19... (R.S.A.)

17. The undermentioned transactions take place between Robertson & Co., of London, and Trumper & Co., of Melbourne—

19..

- Dec. 31. Balance owing by Trumper & Co. to Robertson & Co. at this date, £500.  
 Jan. 7. Robertson & Co. shipped goods to Trumper & Co., £300.  
 Apl. 10. Bank draft received this day by Robertson & Co. from Trumper & Co., £600.  
 Apl. 15. Robertson & Co. paid on behalf of Trumper & Co., charges, Orient Mail S.S. Co., £50; London Packing Co., Ltd., £100.

Prepare Account Current bearing interest at 5 per cent per annum to be rendered by Robertson & Co. to Trumper & Co., as on the 30th April. (R.S.A.)

18. What do you understand by an Account Current? Make out such an account for Yeadon & Co. in respect of the following transactions—

19..

- Jan. 1. Sold goods to Marshall & Co., £200, due 1st March.  
 Feb. 1. Received cash from Marshall & Co., £100.  
 Mch. 1. Bought goods from Marshall & Co., £500, due 1st May.  
 April 1. Paid Marshall & Co., £300.  
 May 1. Bought goods from Marshall & Co., £200.  
 June 30. Sold goods to Marshall & Co., £300.

Interest at 5 per cent per annum, the account to be made up to 30th June. (L.C.U.)

19. Define an Account Current and make out such an account for Alfred Brown in respect of the following transactions with Charles Dawson—

19..

- Jan. 17. Goods sold to Charles Dawson, £200, due 1st Feb.  
 Feb. 1. Received cash from C. Dawson, £50.  
 Mch. 18. Goods bought of Charles Dawson, £300, due 1st April.  
 April 1. Paid to C. Dawson, cash, £200.  
 May 1. Goods bought of C. Dawson, £150.  
 „ 10. Goods sold to C. Dawson, £120, due 1st June..

The account to be made up to 1st June and interest calculated at 6 per cent per annum. (L.C.U.)

20. Rosslyn & Rubens, of London, agree to join in a speculation in tea. Profits and losses are to be shared in the proportion of two-thirds and one-third respectively. Interest is to be credited to the parties upon the cash contributed to the speculation at the rate of 5 per cent for the duration of the venture. On 1st January, 19.., Rosslyn paid in £5,000 to the joint banking account, and Rubens gave his acceptance at two months for £2,000, which was discounted at 6 per cent.

Tea was purchased for cash on 3rd January to the value of £5,985 16s. 2d. A shipment to the value of £3,862 10s. was made to New York on 5th January, and the charges and insurance paid thereon amounted to £362 12s. 4d. This shipment was duly sold by the American agent for £4,642 8s. 7d., less charges £72 18s. 4d., and 2½ per cent commission. A sight bill for the amount was received in London on 10th February. A second shipment of the balance of the tea was made on 21st January, and the charges and insurance paid thereon amounted to £241 8s. 4d. The ship was torpedoed and the cargo, lost. On 28th February the amount covered by the marine policy, £2,000, was paid by the underwriters and the accounts of the venture were closed.

Prepare the accounts necessary to show the result of the venture  
(R.S.A.)

21. On 1st January, 19.., G. Loxton, of Sheffield, consigned to James Feather, of London, 20 cases of cutlery at £40 per case, drawing on J. Feather a bill at three months for £450. G. Loxton paid carriage and insurance, £10. Loxton closes his books on 28th February in each year, and therefore requested Feather to send him particulars of the consignment as at that date. Feather sent the following particulars: 5 cases on hand; 10 cases sold at an average of £49 per case and 5 cases sold at £50 per case. Feather's charges were: Insurance, £3; storage, £5; and his commission was 6 per cent on the sales which he effected. Draw up the Sales Account and the necessary accounts to record these transactions in Loxton's books.  
(L.A.A.)

22. G. Fardon, of Liverpool, and H. Myton, of Ceylon, entered into a joint venture in tea. The following are their transactions—

19..

- Aug. 1. Myton bought for cash tea of the value of £1,500; he paid freight, insurance, etc., on shipping the tea to Liverpool, of £75; he then drew a bill upon Fardon at two months after date for £1,200, which he discounted and received therefor the sum of £1,188.
- Aug. 27. The tea having arrived at Liverpool, Fardon paid landing charges, duty, etc., thereon, of £516.
- „ 29. Fardon sold two-thirds of the tea for £1,600.
- Sept. 5. Fardon sold the remainder of the tea for £900.
- Oct. 4. Fardon duly met Myton's bill of £1,200.
- „ 10. Fardon remitted to Myton a cheque in settlement.

Profits were shared equally, and Fardon agreed to pay the charge for discount on Myton's bill. Prepare an account of the joint venture and write up the accounts which each party would keep in regard to their venture, so as to show the eventual settlement between them.

23. On 1st January, 19.., William Smith, of Birmingham, and Philip Jones, of Paris, entered into a joint adventure for the sale of a shipment of goods: profits and losses being shared equally between them. On 2nd February, 19.., Smith paid £1,000 for the goods,

and in addition, freight, £40; railway charges, £20; and sundry expenses, £25.

Jones made the following payments on account of the joint adventure: 6th March, Government duty, £40 10s.; 9th May, postages and sundries, £5 10s.; 7th April, warehouse charges, etc., £14 10s.

On 10th May Jones sold the whole of the shipment for £1,440.

Prepare statements showing the result of the combined transactions and the amount due to William Smith. (L.A.A.)

24. X and Y decide to buy a picture as a joint venture. They agree that—

- (1) X shall fund the necessary money;
- (2) Y shall sell the picture in America, whither he is going;
- (3) Six per cent per annum on the purchase price to X, and 6 per cent on the selling price to Y for his services, shall rank *pari passu* as first charges on the profits;
- (4) Any further profit shall be divided equally; and
- (5) A loss, if any, shall be shared equally.

The picture cost £1,600, which X paid on 19th December, 19.., borrowing the money from him at 5 per cent. On 19th March, 19.., when the rate of exchange was 4.70, Y sold it for \$10,000 and cabled X his correct share of the proceeds. Ignoring the cost of the cable, which Y bore, prepare an account to show X what profit he made, and a statement showing how much Y should have remitted. (C.A.)

25. Black & White entered into a joint venture on equal terms as to profits or losses of the venture, for the purpose of perfecting an invention with a view to its sale to a syndicate. No interest was to be paid upon their capital prior to division of results. Black contributed £300 and White, £150 to cover the cost of the experiments, White giving his personal services without salary.

Upon the completion of the necessary experiments, the purchases and expenses were found to have amounted to £478. Black then advanced a further £50 and White paid £22 for patent fees, etc.

The invention was sold by them to a syndicate for £1,000 in cash, which was paid to them, and 1,000 fully paid shares of £1 each in the syndicate, and these shares were duly allotted.

Upon completion, White arranged to take over the stock of materials at an agreed valuation of £36, and undertook to discharge outstanding liabilities (if any). Black consented to take over the 1,000 fully paid shares at an agreed valuation of £50.

Prepare the accounts necessary upon the dissolution of partnership. (R.S.A.)

26. C & D buy on joint account 1,000 mining shares at 30s., plus expenses, which amounted to £10. C contributes one-third and D, two-thirds of the price. Six hundred shares are sold at 32s. 6d., less expenses £7 5s., and 310 shares are sold at 31s., less £5 expenses. They divided the balance of the shares at cost price, and also any profit or loss, in proportion to their original contributions. Prepare accounts showing the position at the close of the venture. (West Riding of Yorkshire.)

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